

## Directory

Thomas H. McTavish, C.P.A. .... Auditor General  
James S. Neubecker, C.P.A. .... Executive Deputy Auditor General  
Michael J. Mayhew, C.P.A. .... Deputy Auditor General for Audits  
Linda L. Hagan, C.P.A. .... Director of Administration  
George L. Naylor, C.P.A., C.I.S.A. .... Chief Information Officer  
Jon A. Wise, C.P.A. .... Director of Professional Practice  
Robert T. Ortwein, L.P.C. .... State Relations Officer

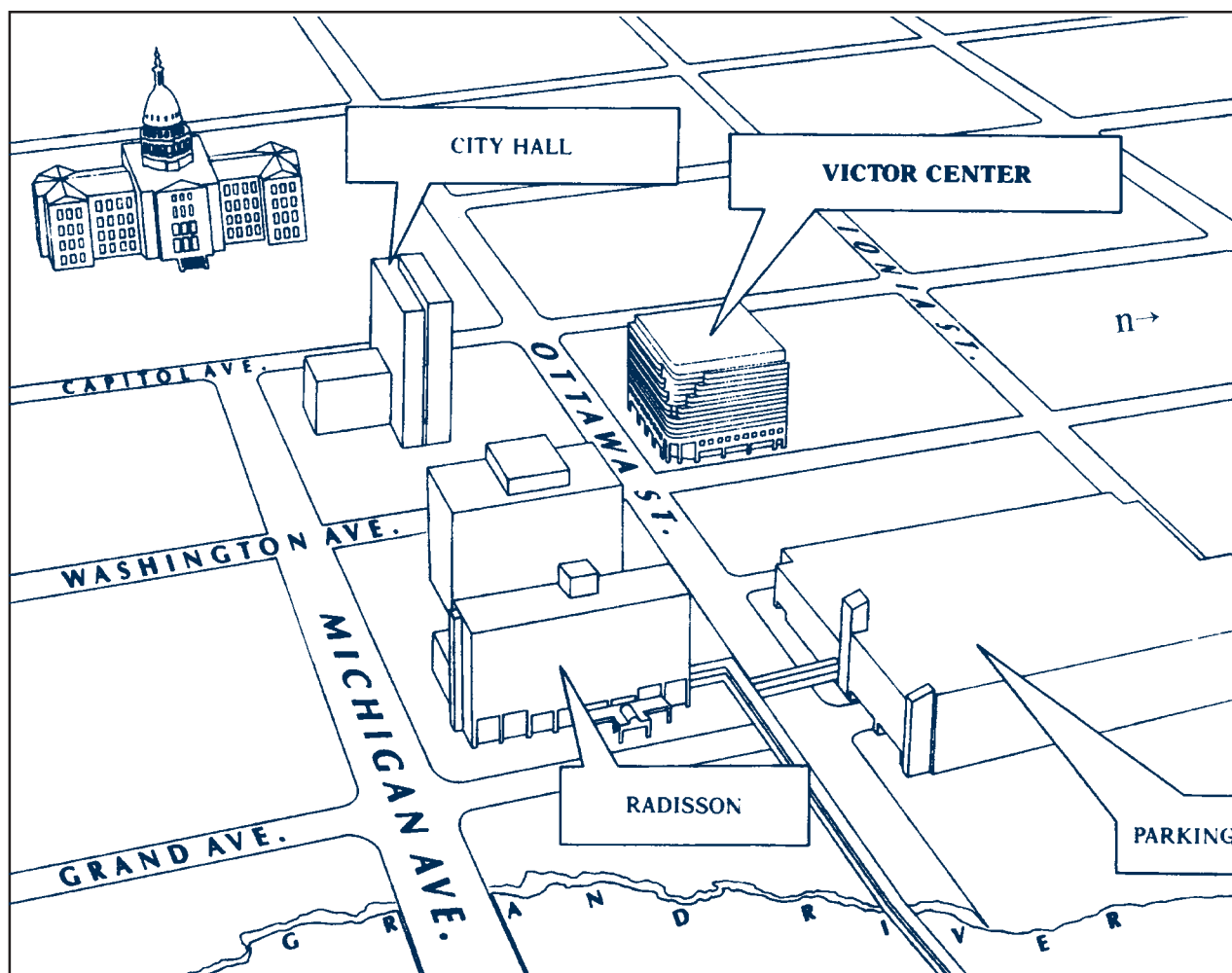
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Office of the Auditor General  
Victor Center, Sixth Floor  
201 N. Washington Square  
Lansing, Michigan 48913

## Where We Are Located





STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

September 30, 2002

The Honorable John M. Engler, Governor of Michigan  
The Honorable Dan L. DeGrow, Senate Majority Leader  
The Honorable Rick V. Johnson, Speaker of the House  
The Honorable John D. Cherry, Jr., Senate Minority Leader  
The Honorable Samuel Buzz Thomas, III, House Minority Leader  
and  
Members of the 91<sup>st</sup> Legislature

Ladies and Gentlemen:

This annual report on the operations of the Michigan Office of the Auditor General covers the fiscal year ended September 30, 2002 and is submitted in accordance with Article IV, Section 53 of the State Constitution.

The Office of the Auditor General has the responsibility, as stated in Article IV, Section 53 of the State Constitution, to conduct post financial and performance audits of State government operations. In addition, certain sections of the *Michigan Compiled Laws* contain specific audit requirements in conformance with the constitutional mandate. To fulfill our requirements and to continually meet our customer needs, we are committed to improving the quality of our audit services and reports and communicating our results to all of the branches of State government, as well as to the citizens of Michigan.

In conformance with the State Constitution and the *Michigan Compiled Laws*, we have established our mission to improve the accountability for public funds and to improve the operations of State government for the benefit of the citizens of the State of Michigan. We serve the public interest by providing members of the Legislature and other policymakers with accurate information, unbiased analyses, and objective recommendations on how to best use scarce public resources. We fulfill our mission by adhering to the professional standards and the principles of integrity, objectivity, independence, and due care and by conscientiously carrying out our audit responsibilities. *Government Auditing Standards* issued by the Comptroller General of the United States and generally accepted auditing standards issued by the American Institute of Certified Public Accountants require auditor independence in fact as well as in appearance and specify what constitutes impairments to independence. The most recent National State Auditors Association external quality control review noted no impairments affecting the Office of the Auditor General's independence in providing auditing and other attestation services.

To help in fulfilling our audit mission and responsibilities, we have focused our efforts on maximizing the quality of our services and improving communication and strengthening

our professional relationship with the Legislature, the agencies that we audit, and the citizens of the State of Michigan. This focus has resulted in a continuous quality improvement process within our office consisting of a commitment to enhance the quality of our services, the use of valid measurements to track our programs, and the use of appropriate teams to facilitate improvements and form ongoing partnerships to promote quality in service delivery.

As the State continues to increase its use of information technology to manage and control its programs and resources, the Office of the Auditor General continues to maintain its leading edge in the use of information technology. We provide our staff with the appropriate technology and resources to enable them to fulfill their assignments and to ensure the successful achievement of our mission.

We also continue to use the State's high-speed network to communicate to our audit staff on assignment at the various State agencies. This communication link permits our staff to store automated information on our servers, to send and receive e-mail, and to access the Internet for research purposes. It also permits us to quickly update computer virus software and computer operating system software to secure our automated information.

Additionally, our Web site continues to be an effective means to make our audit reports available to the Legislature and the general public. Visitors to our Web site can easily search for and retrieve audit reports that contain specific points of interest. Also, visitors can sign up to receive an electronic copy of our audit report summaries as we add them to our Web site.

The core strength of our office continues to be the quality of our staff. There is strong competition from the private sector for new auditors, as well as a strong demand for trained professionals throughout State government. We continue to use innovative strategies to employ and retain highly motivated, skilled, and dedicated staff. The Office of the Auditor General is committed to providing the Legislature and other interested parties with accurate and reliable information, and the key factors in achieving this commitment are the competency and professionalism of our staff.

Sincerely,

A handwritten signature in dark ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a large, sweeping "T" and a long, horizontal flourish extending to the right.

Thomas H. McTavish, C.P.A.  
Auditor General

The Office of the Auditor General, established by the State Constitution within the legislative branch of State government, is responsible for conducting independent financial and performance audits of State government operations. The resulting audit reports provide a continuing flow of information to assist the Legislature in its oversight of State government; to provide citizens with a measure of accountability; and to assist State departments and agencies in improving the financial management and the effectiveness, efficiency, and economy of the activities and programs approved by the Legislature.

### **Organization**

The Office of the Auditor General is organizationally divided into four areas of responsibility. The largest area, the Bureau of Audit Operations, is responsible for planning and conducting audits and reporting audit results. The three other areas, the Office of Professional Practice, the Office of Information Technology, and the Office of Administration, provide essential support services.

### **Audit Activities**

During fiscal year 2001-02, the Office of the Auditor General completed 73 audits and contracted for 21 additional audits. Our audit reports contained 332 recommendations to improve State government financial management and operations. In addition, in accordance with professional standards, we orally communicated many other recommendations of a lesser nature to State managers and administrators during our audits. Conservatively, we estimate the one-year positive impact accruing to the State from first time findings and recommendations in our audit reports completed in fiscal year 2001-02 to be approximately \$165 million and the discounted expected future impact for the next four years to be close to \$660 million.

### **Significant Findings**

Although the number and magnitude of the findings varied considerably from audit to audit, several audit reports contained findings with significant impact on government operations.

#### *SOMCAFR Audit*

Our audit of the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* for the fiscal year ended September 30, 2001, which was conducted simultaneously with the Statewide year-end closing process, included findings that resulted in adjustments of \$3.7 billion and \$103 million related to the government-wide and fund level financial statements, respectively. The most significant adjustments included:

- The Michigan Department of Transportation (MDOT) had not used the most complete and current data to estimate the historical cost of general infrastructure assets at October 1, 2000. As a result, the beginning infrastructure balance was initially understated by \$1.5 billion in the government-wide statements.
- The Office of Financial Management (OFM) had inadvertently used an incorrect amount when calculating the current and noncurrent portions of taxes receivable. The error initially resulted in overstatement of current taxes receivable and understatement of noncurrent taxes receivable by \$575.9 million in the government-wide statements.

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- OFM had not properly allocated the correct amount related to bond and note proceeds spent for capital assets to investments in capital assets, net of related debt, on the statement of net assets. This resulted in an understatement of investments in capital assets, net of related debt, of \$503.7 million and an overstatement of net assets restricted for transportation and unrestricted net assets of \$495.5 million and \$8.2 million, respectively, in the government-wide statements.

#### Other Financial and Financial Related Audits

During fiscal year 2001-02, we also completed 9 Single Audits, 12 financial audits, and 2 financial related audits. The following are highlights from some of these audits:

- The Department of Community Health (DCH) had not taken appropriate action to correct a material weakness identified in its biennial assessment of its internal control system. Also, DCH controls over financial transactions did not prevent the recording of numerous accounting transactions resulting in 23 audit memorandums requesting audit adjustments totaling approximately \$282.8 million. In addition, DCH had not implemented controls to ensure the accuracy of Medicaid inpatient hospital claims and payments. These payments totaled over \$700 million in fiscal year 2000-01.
- The Department of Consumer and Industry Services charged costs associated with licensing activities at facilities such as children's camps, adult foster care camps, training schools, facilities exceeding specified size requirements, and various detention related facilities that are not eligible for Title IV-E Program funds.
- The Department of Corrections did not obtain approval from its grantor agency prior to expending federal funds on the purchase of \$65,968 of equipment for the Adult Education – State Grant Program.

#### Performance Audits

During this fiscal year, we used approximately 60% of our audit effort for performance audits. The following are highlights of findings that, if corrected, would improve the effectiveness, efficiency, and economy of State government and university operations:

- In our audit of Telecommunication Services and Enterprise Security, Department of Management and Budget, we noted that Enterprise Security had not conducted a risk assessment to determine the extent of and frequency for performing vulnerability assessments and penetration testing of the network perimeter. Vulnerability assessments and penetration testing should be done on a regular basis to determine whether vulnerabilities could be exploited.
- In our audit of MDOT's Construction and Technology Division, we determined that MDOT needs to establish a review procedure to ensure that documentation supporting bonus performance program determinations is on file and that the determinations are made in accordance with contract provisions. Our review disclosed that two contractors were paid \$800,000 additional incentive as a result of changing the criteria for when the incentive calculation would begin.

- In our audit of Northeast Michigan Community Mental Health Services (NEMCMHS), an agency under contract with DCH, we recommended that, to help ensure that services are delivered in a safe, sanitary, and humane treatment environment, NEMCMHS should obtain criminal history background checks of contractors who provide services to NEMCMHS consumers and also require contractors to obtain similar checks of their employees.
- In our audit of Office of Education Options, Department of Education, we noted that the Department did not establish and implement necessary rules, policies, and procedures to monitor the operations of public school academy (PSA) authorizers. Also, the Department did not provide adequate guidance to PSA authorizers to assist them in identifying and eliminating conflicts of interest regarding PSA operations and oversight. Further, the Department had not established, and provided to PSA authorizers and PSAs, specific recommendations to help ensure that PSA facilities are safely operated.
- In our audit of the University of Michigan – Dearborn, we determined that the University needs to enhance its efforts to ensure that the verbal communication of its teaching faculty members is sufficiently clear to be easily understood by students. The audit noted that a high percentage of students in some classes, as indicated on a University survey, felt that the faculty members' speech was unclear.
- In our audit of the Federal Cash Management Improvement Act Program, Department of Treasury, we noted that the Cash Management Improvement Act agreement between the Department and the U.S. Department of Treasury contained ambiguous instructions for developing clearance patterns and that these instructions were incompatible with instructions for requesting federal funds. We determined that the State lost approximately \$1.5 million in interest as a result of unclear instructions.

### **Human Resources**

During fiscal year 2001-02, the Office of the Auditor General continued its commitment to professionalism and leadership in the field of State governmental auditing. Our 155-member professional audit staff included 85 certified public accountants, 6 certified internal auditors, 10 certified information systems auditors, and 1 certified management accountant. Staff members actively participated as officers, board members, and committee members of local, State, and national accounting and auditing organizations. In October 2001, we hosted the Midwestern Intergovernmental Audit Forum's Fall Conference for over 200 federal, state, and local auditors from six Midwestern states.

### **Conclusion**

The Office of the Auditor General continually strives to assist the Legislature in performing its oversight function and to improve the financial management and operations of State departments and agencies.



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## Table of Contents

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	<u>Page</u>
Directory .....	i
Letter of Transmittal .....	ii
Executive Digest .....	iv
 Auditors General of Michigan – Historical Listing .....	 2
 Mission and Overview .....	 3
Mission .....	3
Responsibility .....	3
Organization and Operation of the OAG .....	4
Communication and State Relationships .....	6
Continuous Quality Improvement Efforts .....	6
Organizational Structure .....	7
Office of the Auditor General Employees .....	8
 Auditor General Reports .....	 12
 Audit Operations .....	 18
Financial Audits .....	19
SOMCAFR Audit .....	20
Single Audits .....	22
Other Financial Audits .....	25
Financial Related Audits .....	26
Performance Audits .....	28
Legislative Requests .....	36
National Awards .....	38
Audit Operations Project Team Award .....	40
 Support Services .....	 44
Office of Professional Practice .....	44
Office of Information Technology .....	46
Office of Administration .....	49
 Audit, Special, and Letter Reports Completed During Fiscal Year 2001-02 .....	 55

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## Auditors General of Michigan

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### HISTORICAL LISTING

Thomas H. McTavish, C.P.A. ....	1989 -
Charles S. Jones, C.P.A. (acting) .....	1989-1989
Franklin C. Pinkelman, C.P.A. ....	1982-1989
Albert Lee, C.P.A. ....	1965-1982
Allison Green (acting) .....	1965-1965
Billie S. Farnum .....	1961-1964
Otis M. Smith .....	1959-1961
Frank S. Szymanski .....	1956-1959
Victor Targonski .....	1955-1956
John B. Martin, Jr. ....	1951-1954
Murl K. Aten .....	1947-1950
John D. Morrison, C.P.A. ....	1945-1946
Vernon J. Brown .....	1939-1944
George T. Gundry .....	1937-1938
John J. O'Hara .....	1935-1936
John K. Stack, Jr. ....	1933-1935
Oramel B. Fuller .....	1909-1932
James B. Bradley .....	1905-1908
Perry F. Powers .....	1901-1904
Roscoe D. Dix .....	1897-1900
Stanley W. Turner .....	1893-1896
George W. Stone .....	1891-1892
Henry H. Aplin .....	1887-1890
William C. Stevens .....	1883-1886
W. Irving Latimer .....	1879-1882
Ralph Ely .....	1875-1878
William Humphrey .....	1867-1874
Emil Anneke .....	1863-1866
Langford G. Berry .....	1861-1862
Daniel L. Case .....	1859-1860
Whitney Jones .....	1855-1858
John Zwiegles, Jr. ....	1851-1854
John J. Adams .....	1848-1850
Digby V. Bell .....	1846-1848
John J. Adams .....	1845-1846
Charles G. Hammond .....	1842-1845
Henry L. Whipple .....	1842-1842
Alpheus Felch .....	1842-1842
Erotus P. Hastings .....	1840-1842
Henry Howard .....	1839-1840
Robert Abbott .....	1836-1839



### **Mission**

The mission of the Office of the Auditor General (OAG) is to improve the accountability for public funds and to improve the operations of State government for the benefit of the citizens of the State of Michigan. The OAG best accomplishes its mission by committing to total quality; by adhering to the professional standards of the auditing profession; and by promoting an atmosphere of mutual trust, honesty, and integrity among OAG staff and the people they serve.

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*...to improve the accountability for public funds and to improve the operations of State government...*

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### **Responsibility**

The OAG has the responsibility, as stated in Article IV, Section 53 of the State Constitution, to conduct post financial and performance audits of State government operations. In addition, certain sections of the *Michigan Compiled Laws* contain specific audit requirements in conformance with the constitutional mandate.

Government officials and employees are accountable to the citizens of the State of Michigan for the proper handling of public funds and are responsible for managing State resources effectively, efficiently, and economically. OAG audit reports provide a continuing flow of information to assist the Legislature in its oversight of more than 110 individual State funds and an annual budget of approximately \$41 billion. OAG audit reports also provide citizens with a measure of accountability and assist department administrators by providing an independent and objective evaluation of their operations. The OAG's overall goal is to improve accounting and financial reporting practices and to promote effectiveness, efficiency, and economy in State government.

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*...to assist the Legislature in its oversight of more than 110 individual State funds and an annual budget of approximately \$41 billion.*

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Audit activities are performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Organization and Operation of the OAG**

The OAG is under the direction and control of the Auditor General, Thomas H. McTavish. Mr. McTavish is the principal executive and has ultimate responsibility for OAG policies and practices.



Thomas H. McTavish, C.P.A.  
Auditor General

The Auditor General has appointed James S. Neubecker as Executive Deputy Auditor General and Michael J. Mayhew as Deputy Auditor General for Audits to act as his principal aides in carrying out the management responsibilities and audit activities of the OAG.



James S. Neubecker, C.P.A.  
Executive Deputy Auditor General



Michael J. Mayhew, C.P.A.  
Deputy Auditor General for Audits

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The OAG is organizationally divided into four areas of responsibility:

- The Bureau of Audit Operations is responsible for conducting independent post financial and performance audits of the State of Michigan's executive, legislative, and judicial branches of government, including its universities and community colleges. The Bureau also performs specific reviews in response to legislative requests. In addition, the Bureau participates in joint National State Auditors Association audits with other states' audit agencies.
- The Office of Professional Practice is responsible for performing quality assurance reviews of audit reports and working papers, editing the audit reports, and conducting accounting and auditing research.
- The Office of Information Technology is responsible for managing the OAG local area network, maintaining the management information system, and providing computer support and software assistance to all OAG staff.
- The Office of Administration is responsible for human resource management; computer-assisted graphics support services; accounting and budgeting; audit report production; and officewide printing, purchasing, and clerical support.

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***The OAG is organizationally divided into one bureau and three offices.***

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A chart depicting this organizational structure is presented on page 7.

At the close of the fiscal year, there were 155 employees on our professional audit staff and 19 technical and clerical employees.

### **Communication and State Relationships**

The OAG is committed to establishing and maintaining communication with all three branches of State government, as well as other entities subject to oversight by the OAG, which includes universities and community colleges.

OAG-issued audit reports are the formal written contact and primary means of communicating the results of our audit efforts. In addition to the reports, the OAG also focuses on communication and maintaining good working relationships before and after the issuance of audit reports. The OAG has established processes to communicate our audit plans with auditees and the Legislature, to issue periodic status reports to House and Senate leadership, to issue quarterly summaries of audit reports, and to provide briefings and testimony before legislative committees. Additionally, the OAG issues an annual report on the operations of the OAG to the Governor, the legislative leaders, and to each member of the Legislature.

To achieve the widest distribution of our audit efforts, the OAG posts copies of its audit reports, and a copy of the annual report, to our Web site at *[www.state.mi.us/audgen](http://www.state.mi.us/audgen)*.

Furthermore, the OAG employs a State Relations Officer, whose sole responsibility and focus is enhancing verbal communication and effective relationships. The State Relations Officer serves as the primary liaison for the OAG with the Legislature, the legislative leadership, and the Executive Office. The State Relations Officer also complements our ongoing audit relationships with the legislative fiscal agencies, judicial branch, State departments, and universities and community colleges.

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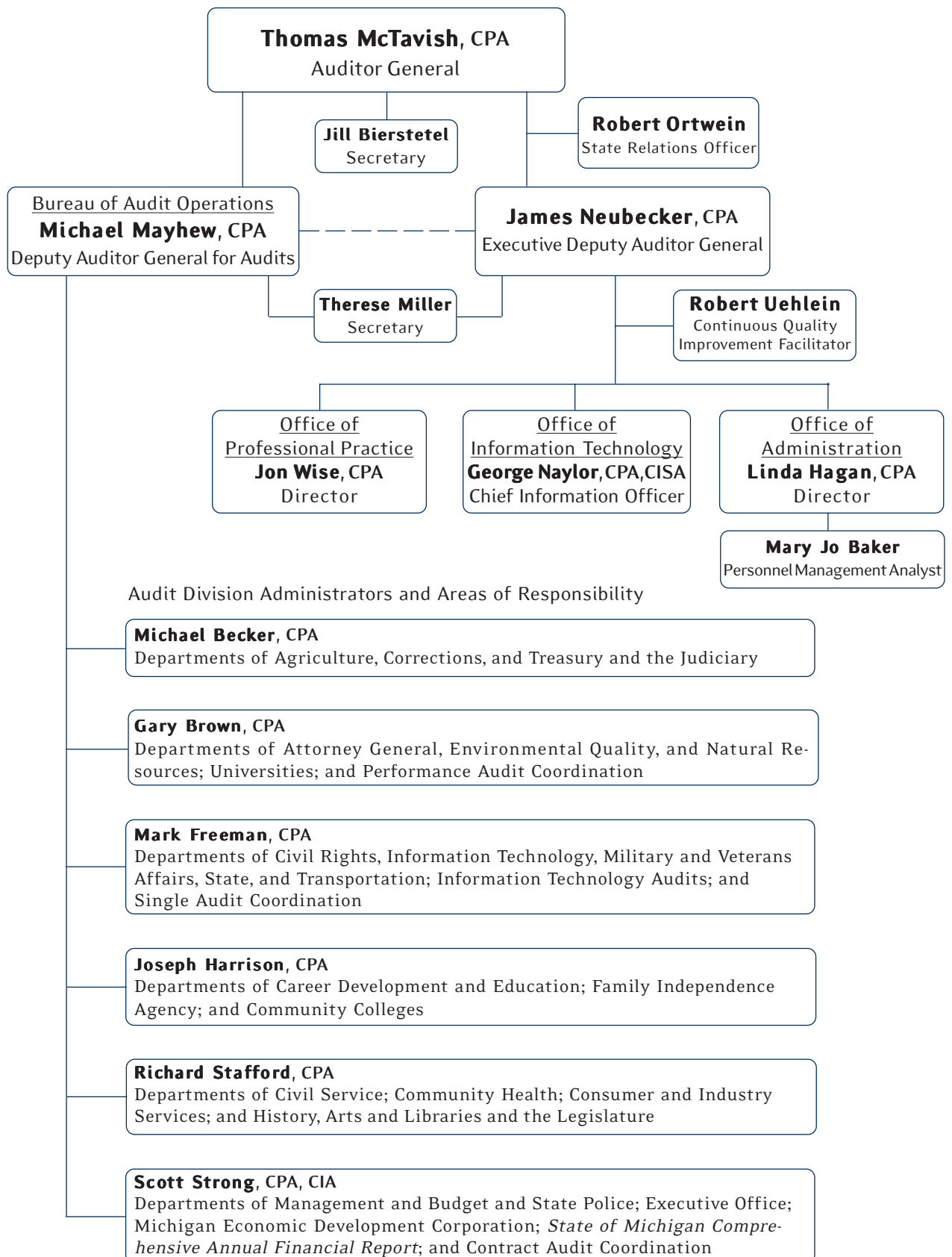
### **Continuous Quality Improvement Efforts**

The OAG's Continuous Quality Improvement Facilitator assists in developing quality improvement goals to focus efforts on providing timely and relevant audit services and reports. Measures to monitor progress in meeting these goals are also developed.

Each of the organizational areas within the OAG has developed improvement goals and objectives and performance measurement indicators. We are committed to our continuous quality initiatives as we strive for further improvements in the future.

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## Organizational Structure



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## *Mission and Overview*

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### Office of the Auditor General Employees

201 N. Washington Square  
Lansing, Michigan 48913

(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A., AUDITOR GENERAL  
Jill A. Bierstetel, Secretary

James S. Neubecker, C.P.A., Executive Deputy Auditor General  
Therese M. Miller, Secretary

Robert T. Ortwein, L.P.C., C.S.W., State Relations Officer

Robert K. Uehlein, Continuous Quality Improvement Facilitator

### AUDIT OPERATIONS

Michael J. Mayhew, C.P.A., Deputy Auditor General for Audits

#### Assistant to the Deputy Auditor General for Audits

Calvin L. Kladder, C.I.A.

#### Audit Division Administrators

Michael R. Becker, C.P.A.

Joseph W. Harrison, C.P.A.

Gary E. Brown, C.P.A.

Richard A. Stafford, C.P.A.

Mark A. Freeman, C.P.A.

Scott M. Strong, C.P.A., C.I.A.

#### Audit Managers

Steven J. Baker, C.P.A., C.I.S.A.

Assists Mr. Freeman

James W. Bellinger, C.P.A.

Assists Mr. Harrison

Thomas J. Beuerle, C.P.A.

Assists Mr. Stafford

Therese A. Regner, C.P.A.

Assists Mr. Strong

Raymond J. Vernellis

Assists Mr. Becker

James K. Vogel, C.P.A.

Assists Mr. Brown

---

### Principal Audit Supervisors

Donna L. Ackley, C.P.A.  
Susan M. Curtis, C.P.A.  
Lynn R. Green, C.P.A.  
Laura J. Hirst, C.P.A.

Craig M. Murray, C.P.A., C.I.A.  
Gerald L. Olson  
Melissa A. Schuiling, C.P.A., C.I.S.A.

### Senior Audit Supervisors

Richard T. Aapala  
Gary J. Bacigal  
John T. Cotter, Jr., C.P.A.  
Gary A. Curtis  
Scot E. Hazel  
Beau A. Hill, C.P.A.  
Steven R. Koschay, C.P.A.  
Elden N. Lamb  
Jane E. Laycock, C.P.A.  
Michael W. Laycock  
Mary L. Lowe, C.P.A.

Sid V. Lundquist  
Lawrence J. McCliment, C.P.A.  
Lisa L. Pratt, C.P.A.  
Kathy J. Schroeder, C.P.A., C.I.S.A.  
Gerald A. Schwandt  
Kevin L. Warner, C.P.A., C.I.S.A.  
Richard J. Weller, C.P.A.  
Ronald A. Yarsevich, C.P.A.  
Jeffrey L. Zemke  
Amy J. Zimmerman, C.P.A.

### Audit Supervisors

Kevin C. Baker, C.P.A.  
Karen J. Bosworth, C.P.A.  
Michael T. Gardner, C.P.A.  
Melinda S. Hamilton  
William L. Harper  
Elmer R. Hess, Jr.

Daphne Y. Hobson, C.P.A.  
Brian C. Hovey, C.P.A.  
Tracy L. Jelneck, C.P.A.  
Mary G. Martin, C.P.A., C.I.A.  
Frank A. Natschke, C.P.A.  
Susan H. Rosenbaum



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## *Mission and Overview*

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### Senior Auditors

Anthony A. Alvord, C.P.A.  
Yvonne L. Benn, C.P.A.  
James A. Berridge  
Kelly L. Blessing  
Michele M. Elms, C.P.A.  
Shelly M. Fanson, C.P.A.  
Hilary J. Goerge  
Julius Hampton, Jr.  
Daniel T. Jaroche, C.P.A.  
Brian K. Kent, C.P.A.  
James A. Maleski, C.P.A.

Carol A. O'Callaghan, C.P.A.  
Thomas D. Ongstad  
Eileen M. Schneider, C.P.A.  
Gregory J. Schroll, C.P.A.  
Nancy Jo Serna, C.P.A.  
Carri A. Simon, C.P.A.  
Duane L. Smiley, C.P.A.  
Silhouette T. Street, C.P.A.  
Julie L. Trierweiler  
Richard J. Ulander  
Bryan W. Weiler

### Staff Auditors

Renate S. Anderson  
Theresa M. Barsch  
Kevin D. Bashore  
Kelly M. Bernath  
Heather A. Boyd, C.P.A.  
Edward J. Brickner  
Ivy M. Britting  
Angela M. Brown-Schafer  
Brian T. Buckner  
Ryan J. Chittaro, C.P.A.  
Patricia A. Chooi  
Christine L. Covell, C.P.A.  
Aaron S. David  
Diane L. DeLuca, C.P.A.  
Laura A. DeMember, C.P.A.  
Julie A. Dexter  
Michael J. Foerster  
Jill E. Gard  
Lisa S. Harral, C.P.A.  
Shawna M. Hessling  
Pamela M. Huffman, C.P.A.  
Laura M. Ingalls  
Paul J. Jacokes, C.P.A.  
Timothy M. Johnson, C.P.A.  
Renee L. Johnson-Maybee  
Connie M. Jones, C.P.A.

Charles R. Kern, II  
Lisa R. Kreiter  
Karie S. Kusnier  
Scott A. Kusnier  
Chandra L. Lantz  
Mark A. Lee  
Justin C. Londo  
Cheryl A. Manning, C.P.A.  
Mary Kay Mays  
Amy M. McGreaham  
Dennis M. McMillan, C.P.A.  
Lora J. Mikula  
Susan D. Morway  
Lori S. Mullins  
Christopher C. Oosterhoff  
Pamela J. Platter  
Stacie L. Sampson  
Francis W. Thelen  
Tamara W. Torongo  
Jill M. Trepkoski  
Audra C. Turner, C.P.A.  
Michael J. Ventura, C.P.A.  
Scott R. Werner  
Aimee M. Wingle, C.P.A.  
Rod A. Wlock  
Melanie A. Zoerhoff

---

## PROFESSIONAL PRACTICE

Jon A. Wise, C.P.A., Director

### Quality Assurance

John J. Thrush, C.P.A., Assistant  
Director  
Alvin D. Bonds  
Cindy L. Grover, C.P.A.  
Mary A. Waterhouse, C.P.A.

### Audit Report Review

Julie E. B. Chamberlain, C.P.A., Editor  
Michael B. Amspaugh, C.P.A., C.I.A., C.M.A.  
Kelly L. Bengel, C.P.A.

### Research and Professional Standards

Mary Jo Koschay, C.P.A.

## INFORMATION TECHNOLOGY

George L. Naylor, C.P.A., C.I.S.A., Chief Information Officer

### Local Area Network and Computer Support Section

Kimberly E. Jacobs, C.P.A., C.I.S.A., C.N.E., Manager  
Jeffrey J. Mikula, C.N.A., Supervisor  
Gabriele E. Brazee  
Joshua N. Galloway

Thomas D. Mason, C.N.A.  
Jason M. Michels, C.N.A.  
David L. Newkirk, C.N.A.

### Software Assistance Section

Brad A. Jarvis, C.I.S.A., Assistant C.I.O.  
Andrew A. Mitchell, Supervisor  
Erica L. Morris, C.P.A., C.I.S.A., Supervisor

David E. Batz, C.P.A., C.I.S.A.  
Sandra L. Streb, C.P.A.  
Elizabeth A. Torres

## ADMINISTRATION

Linda L. Hagan, C.P.A., Director

### Human Resources

Paul J. Green, C.P.A., C.I.A., C.I.S.A.  
Assistant Director  
Jackie S. Lawson, C.P.A.  
Professional Development Coordinator  
Stephanie S. Roach  
Professional Development Coordinator  
Mary Jo Baker, Personnel Management  
and Administrative Analyst

### Accounting and Budgeting

Michael E. Mrazek, Accounting and  
Budgeting Specialist

### Project and Security Management

Dennis J. Strzalkowski

### Office Services

Suzanne M. Kinney, Supervisor  
Kelly R. Ancel  
Rick L. Ettinger

### Clerical Support

Amanda A. Feldpausch  
Donna J. Glowacki  
Dawn R. Pung  
Jarita E. Qawwee  
Jessica J. Schmitt  
Erin M. Wohlfert

### Payroll/MIS Input Unit

Theresa M. Fedewa

---

***Various types of audits complement each other.***

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### **Types of Audits Performed by the OAG**

#### **Financial Audits**

Financial audits, which include financial statement and financial related audits, are designed to provide reasonable assurance about whether the financial statements (or schedules) of an audited entity are fairly presented in conformity with generally accepted accounting principles. Other projects that support the financial audits, including facility closing reviews and follow-up reviews of material financial audit findings, may be classified as financial related audits.

#### **Single Audits**

Single Audits, which are financial audits performed in accordance with the Single Audit Act Amendments of 1996, are designed to meet the needs of all financial report users, including an entity's federal grantor agencies. Single Audits require the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133.

#### **Performance Audits**

Performance audits, which include economy and efficiency and program audits, are designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve operational effectiveness and efficiency, to provide public accountability, and to facilitate decision making by parties responsible for overseeing or initiating corrective action. Follow-up reviews of material performance audit findings are also classified as performance audits.

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## Professional Standards

OAG audits are performed in accordance with the following professional standards:

- Generally accepted auditing standards of the American Institute of Certified Public Accountants
- *Government Auditing Standards* issued by the Comptroller General of the United States
- The Single Audit Act Amendments of 1996 and implementing regulations

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***Professional standards are strictly adhered to.***

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## Independence

*Government Auditing Standards* issued by the Comptroller General of the United States and generally accepted auditing standards issued by the American Institute of Certified Public Accountants require auditor independence in fact as well as in appearance and specify what constitutes impairments to independence. The most recent National State Auditors Association external quality control review noted no impairments affecting the OAG's independence in providing auditing and other attestation services.

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***Independence standards are followed.***

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## Value of Audit Reports

### To the Legislature

OAG reports provide objective, unbiased, and independently developed information that members of the Legislature can use in making informed decisions with confidence. The OAG also responds directly to requests from the Legislature to review activities, programs, or funds not included in the scope of scheduled audits. OAG reports contained over 300 recommendations that identified

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***Information from audit reports can be used in making informed decisions with confidence.***

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opportunities for improving effectiveness and efficiency in State operations and provided information needed by the Legislature to make decisions regarding the continuation of programs and levels of funding.

### To the Auditee

OAG reports provide objective, unbiased, and independently developed information about the auditee's operations that can be used by management to improve its methods of operating. OAG recommendations, when implemented, frequently result in more effective, efficient, and economical programs.

### To Third Parties

Investors and creditors obtain OAG reports and use them as a source of information that they can rely on to make decisions. For example, the *State of Michigan Comprehensive Annual Financial Report*, which includes the Auditor General's opinion regarding fair presentation in conformity with generally accepted accounting principles, is relied on by the financial community in setting bond ratings for State-issued debt. This report consistently qualifies for the annual Certificate of Achievement for Excellence in Financial Reporting presented by the Government Finance Officers Association.

Also, OAG Single Audit reports satisfy the federal government's demand for accountability of federal funds allocated to the State of Michigan.

### To the Citizens of the State of Michigan

The citizens have confidence in knowing that the Legislature is aggressive in its oversight and accountability of money paid to the State in the form of taxes, fees, and other revenue and prudent in expending funds in accordance with statutes and regulations.

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***Many third party readers, including investors and creditors, and the citizens of Michigan use OAG audit reports.***

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## How and To Whom Audit Reports Are Issued

Approximately five days before the official release date of the audit report, the audited entity receives a copy of the audit report. This enables the entity to be prepared for any questions people may have regarding the audit. The audit report is typically addressed to the audited entity's chief executive officer and/or the chair of its governing board or commission. In addition, copies of the report are routinely sent to the following:

- Relevant House and Senate Appropriations Committee(s)
- Relevant House and Senate Standing Committee(s)
- Audited department and subunits, as may be required
- Governor's Office
- Office of Financial Management, Department of Management and Budget (DMB)
- House and Senate Fiscal Agencies
- Anyone who has specifically requested the particular audit report

Although a copy of each audit report is sent to the Capitol press room, the OAG does not issue press releases on any audit reports.

## OAG Contact With the Legislature

The audit report is the formal written contact that the OAG has with the Legislature. The OAG routinely provides legislative briefings to key members of oversight and appropriations committees and other members of the Legislature who have expressed a particular interest in specific topics or audit reports.

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***The audit report release process ensures broad distribution.***

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***Audit reports, briefings, and hearings are ways that the OAG works with the Legislature.***

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In several instances, audit report briefings have resulted in legislators requesting OAG staff to testify at hearings on the audit report itself.

The Auditor General also testifies periodically on audit-related activities, as requested by the Legislature.

### Reaction and Response to an Audit Report

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***Follow-up of OAG audit reports is provided for in law and administrative procedure.***

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Section 18.1462 of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1280.02 establish requirements for following up audit findings and recommendations for executive branch departments and subunits. The audited departments are required to develop formal responses to OAG audit findings and recommendations. This follow-up is in addition to the agency's preliminary response which is included in each OAG audit report.

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***Audited agencies are required to submit a formal response within 60 days after release of the audit report.***

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Audited agencies must submit a formal response covering all audit findings and recommendations to the director of the DMB Office of Financial Management within 60 days after release of the audit report, along with a response summary sheet indicating: (1) action completed, (2) recommendations to be complied with, and (3) contested findings and recommendations. Copies are also sent to the DMB Office of the State Budget as well as to the OAG.

Each response must state the agency's agreement or disagreement with the findings and recommendations. If in agreement, the response is to: (1) state the actions taken to address the findings and recommendations and when each action was completed or (2) state what actions will be taken to address the findings and recommendations and when such actions will be completed. If the audited entity is contesting audit findings or recommendations, the entity notes the specific area of disagreement and reason(s) for disagreement.



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When the OAG performs an audit of a university or community college, the annual appropriations acts require the principal executive officer of the audited institution to submit a written response to the audit to the House and Senate Fiscal Agencies, the OAG, and the State budget director. Community colleges are also required to respond to the House and Senate Appropriations Committees and to the Michigan Department of Career Development. The response is due within 60 days after the audit report has been issued and should specify the action taken by the institution regarding the audit report's recommendations.

### **OAG Follow-Up on Material Findings**

Audit reports that contain material findings and recommendations are routinely followed up with a limited scope review approximately six months after the release date of the audit report. In this way, the OAG can review the progress the auditee has made in complying with the recommendations and provide users of the audit report with timely information.

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*Material findings and recommendations are routinely followed up approximately six months after the release of the audit report.*

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### **Subsequent Audits**

The preparation for subsequent audits begins with a preliminary survey, which includes reviewing the disposition of prior audit recommendations. The audited entity's official response to the prior OAG audit includes information explaining how it plans to comply with the OAG recommendations. Therefore, the OAG is able to review the status of all of the prior audit recommendations. For most recommendations, compliance will have been satisfactorily achieved. However, when compliance has not been achieved and the facts are substantially the same as before, the OAG will repeat the audit finding and recommendation(s) in the current report.

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## Audit Operations

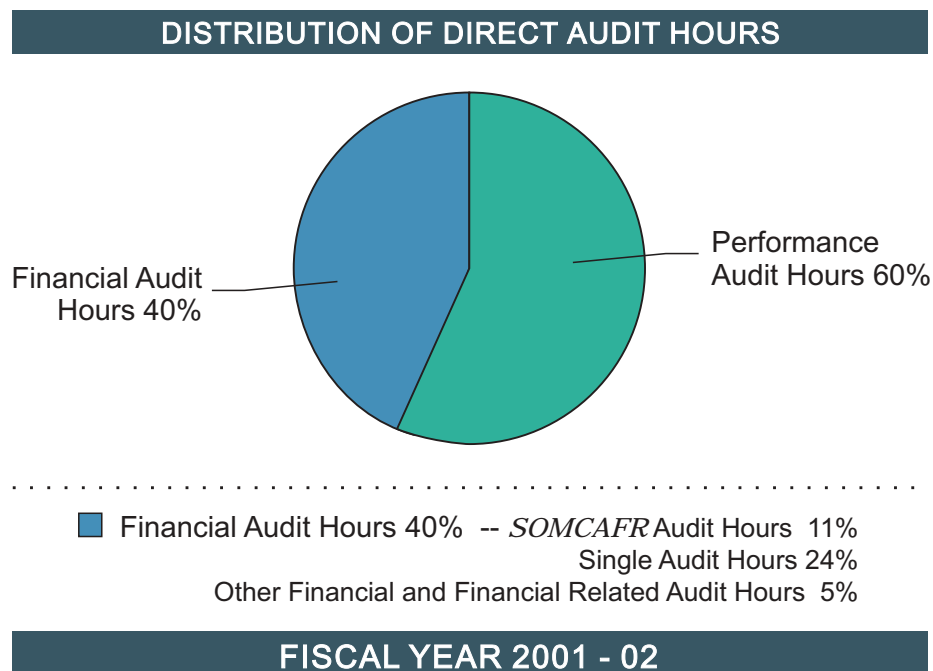
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The Bureau of Audit Operations is responsible for financial and performance audits of all State operations. The Bureau develops an annual audit plan in which audits are scheduled in accordance with a risk based assessment. Financial audits are scheduled to support the OAG's opinion on the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*, to meet State and federal Single Audit requirements, and to comply with other State mandates. Performance audits are scheduled on a priority basis related to their potential for improving program effectiveness and efficiency.

The OAG contracts with public accounting firms for some financial audits. Contractual auditors are selected through a competitive bid process, typically for annually required audits of some State authorities. Contracting with these public accounting firms enables the Bureau to avoid excessive peak seasonal work loads, to complete the financial audits on a timely basis, and to allocate limited professional staff resources to help meet the OAG's increasing demands for performance audits.

During fiscal year 2001-02, we completed 73 audits (see complete listing starting on page 55) and contracted for 21 additional audits. Our audits were either financial or performance in nature. In addition to its financial and performance audit staff, the Bureau of Audit Operations has an information systems audit staff that performs audits of the State's information processing centers and automated information systems.

The following graph shows the distribution of direct audit hours used for the different types of audits and reviews in fiscal year 2001-02:



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## Financial Audits

Approximately 40% of our direct audit hours were used for financial audits in fiscal year 2001-02.

The OAG conducts three types of financial audits:

1. An annual audit of the entire State entity reported in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Approximately 11% of our direct audit hours were used to complete the *SOMCAFR* audit.
2. Biennial audits, in conformance with the federal Single Audit Act, of State departments that receive significant federal funding. Approximately 24% of our direct audit hours were used to complete Single Audits.
3. Periodic audits of other departments, funds, and component units. The composition and frequency of the financial audits are generally based upon risk assessments conducted by the OAG, as well as State and federal mandates. Approximately 5% of our direct audit hours were used to complete other financial and financial related audits.

The OAG is committed to reducing the amount of resources used to conduct financial audits while maintaining high audit quality and conformance with all applicable auditing standards. Increased efficiencies from financial audits will be used to provide the resources for the OAG's increasing demands for performance audits.

Under our continuous quality improvement efforts, we have established goals and related objectives to improve the efficiency and timeliness of our financial audit reports.

We are in the process of further refining our audit approaches for the Single Audits, which should lead to significant reductions in the number of hours spent on these audits in the future.

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***The OAG is committed to reducing the amount of resources used to conduct financial audits while maintaining high audit quality and conformance with standards.***

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### **SOMCAFR Audit**

The *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* is prepared by the Office of Financial Management (OFM), Department of Management and Budget (DMB). The *SOMCAFR* is comprised of the basic financial statements of the State of Michigan, which includes the government-wide financial statements, fund financial statements for the State's major funds, combining and individual fund financial statements for nonmajor funds, and statistical data. Included in the State's reporting entity are all funds, departments and agencies, bureaus, boards, commissions, and authorities that are considered an integral part of the primary government. Also included are component units, consisting of 12 authorities and 10 public universities, for which the State is financially accountable.

During fiscal year 2000-01, OFM implemented Governmental Accounting Standards Board (GASB) Statement Nos. 33 through 38. One year earlier than required, Michigan became only the second State to implement GASB Statement No. 34, which required substantial change in governmental accounting and reporting. GASB 34 required the State, for the first time, to compile government-wide statements on the full accrual basis of accounting while retaining the modified accrual basis of accounting for the fund level statements. Another major change required by GASB 34 was to record all infrastructure assets, such as roads and bridges, in the states' accounting records. This resulted in the State recording an additional \$14 billion in capital assets in the government-wide statements. In addition, the focus of the fund level statements changed from reporting by fund type to highlighting the major funds, as defined by GASB 34.

The OAG annually audits the *SOMCAFR* and the Auditor General issues an independent auditor's report on the State's basic financial statements. For the fiscal year 2000-01 *SOMCAFR*, the Auditor General's independent auditor's report, dated March 29, 2002, included an unqualified opinion.

The OAG identified 39 audit findings in the course of completing the fiscal year 2000-01 *SOMCAFR* audit. These findings identified significant accounting and financial reporting exceptions totaling \$3.8 billion. As a result of our audit, OFM and the State agencies posted adjustments of \$3.7 billion and \$103 million related to the government-wide and fund level financial statements, respectively. Significant findings identified in the fiscal year 2000-01 *SOMCAFR* audit and corrected in the issued *SOMCAFR* included:

#### **Government-Wide Statements:**

- The Michigan Department of Transportation (MDOT) had not used the most complete and current data to estimate the historical cost of general infrastructure assets at October 1, 2000. As a result, the beginning infrastructure balance was initially understated by \$1.5 billion.

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- OFM had inadvertently used an incorrect amount when calculating the current and noncurrent portions of taxes receivable. The error initially resulted in overstatement of current taxes receivable and understatement of noncurrent taxes receivable by \$575.9 million.
  - OFM had not properly allocated the correct amount related to bond and note proceeds spent for capital assets to investments in capital assets, net of related debt, on the statement of net assets. This resulted in an understatement of investments in capital assets, net of related debt, of \$503.7 million and an overstatement of net assets restricted for transportation and unrestricted net assets of \$495.5 million and \$8.2 million, respectively.
  - MDOT had not used a consistent methodology when calculating the historical cost of the beginning infrastructure balance for bridges and current costs for construction projects. This resulted in overstatements of beginning net assets of \$369.7 million, infrastructure of \$267.8 million, transportation expenses of \$101.9 million, and investments in capital assets, net of related debt, of \$267.8 million.
  - OFM had not reclassified completed construction projects from construction in progress to buildings. The error resulted in an overstatement of construction in progress of \$272.8 million and an understatement of buildings and accumulated depreciation of \$261.5 million and \$11.3 million, respectively.
  - OFM and the Department of Treasury had used inaccurate data to estimate a portion of the taxes receivable in the government-wide statements. This resulted in an overstatement of taxes receivable and revenue of \$235.9 million.
  - OFM had not reported the long-term and current portions of the workers' compensation liability as two separate components as required by GASB Statement No. 34. The error resulted in an understatement of the current portion of long-term debt and an overstatement of the noncurrent portion of long-term debt of \$44 million.
  - DMB had not recorded the purchase of the Grand Tower as a capital asset resulting in buildings being understated by \$42.9 million.
  - OFM had not properly classified net assets recorded in the Michigan Civilian Conservation Corps Endowment Fund and the Children's Trust Fund on the statement of net assets, resulting in an overstatement of restricted net assets and an understatement of unrestricted net assets of \$41.2 million.

### **Fund Level Statements:**

- The Department of Community Health (DCH) had made a clerical error in a Medicaid accrual calculation work sheet. This error resulted in an understatement of accounts payable and expenditures of \$37.4 million and an understatement of federal revenues and receivables of \$20.9 million in the General Fund.
- DCH had not included amounts due to the State from a hospital that had claims activity during the year as provided for in its internal policy. As a result, DCH understated accounts receivable and overstated expenditures by \$10.9 million in the General Fund. In addition, DCH overstated federal receivables and federal revenue by \$6 million in the General Fund.
- The Department of Education had recorded expenditures related to the Golden Apple Award in the wrong fiscal year and overestimated the current year accounts payable related to the same program. As a result, the Department overstated expenditures by \$10.9 million, beginning fund balance by \$9.6 million, and accounts payable by \$1.3 million in the School Aid Fund.

### **Single Audits**

In July 1996, the federal Single Audit Act was amended and the U.S. Office of Management and Budget expanded and reissued Circular A-133 as the audit requirement for state and local governments. The Single Audit Act requires state and local governments receiving \$300,000 or more of federal financial assistance in any fiscal year to have a comprehensive financial audit, including an assessment of the entity's compliance with federal program requirements. The recipients of the federal funding are required to submit the audit reports to the federal government within nine months of the end of the fiscal year. In accordance with Michigan statute (Act 251, P.A. 1985), the OAG audits approximately one-half of the applicable departments and agencies each year on a biennial audit cycle.

We continue to review our approach to Single Audits in order to increase their effectiveness and efficiency. Over the past two fiscal years, this effort has resulted in our release of all Single Audit reports, except one, to the departments and agencies for submission to the federal government within the nine-month reporting requirement.

In fiscal year 2000-01, we completed and released Single Audits of the following departments and agencies for the two fiscal years ended September 30, 2000:

1. Department of Agriculture
2. Department of Attorney General
3. Michigan Department of Career Development
4. Department of Civil Rights

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5. Family Independence Agency
  6. State-Funded Judicial Operations
  7. Library of Michigan
  8. Department of Management and Budget
  9. Michigan Strategic Fund
  10. Michigan Economic Development Corporation
  11. Department of State
  12. Michigan Department of Transportation

In fiscal year 2001-02, we completed and released Single Audits of the following departments and agencies for the two fiscal years ended September 30, 2001:

1. Department of Community Health
2. Department of Consumer and Industry Services
3. Department of Corrections
4. Department of Education
5. Department of Environmental Quality
6. Department of Military and Veterans Affairs
7. Department of Natural Resources
8. Michigan Department of State Police
9. Department of Treasury

In our Single Audits for the two fiscal years ended September 30, 2000, we identified the following material exceptions:

- We issued a qualified opinion on the Michigan Department of Career Development's compliance with federal program requirements for the Adult Education – State Grant Program. We noted that the Department did not allocate federal funds based on actual participation. As a result, 136 subrecipients were provided \$892,320 that was not allowable. We also noted that some subrecipients received federal funds that were either greater or less than their allowable reimbursement.
- We issued qualified opinions on the Family Independence Agency's compliance with federal program requirements for the following programs: Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement, Refugee and Entrant Assistance: State Administered Programs, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and Foster Care: Title IV-E. Our audit disclosed noncompliance related to the coding of federally funded programs, case file internal control, child support enforcement efforts, documentation and allowability of federally funded expenditures, noncooperation penalties, client disqualification, discontinuance of adoption subsidy payments, vendor verification of client eligibility, allowable funding sources for federal matching requirements, financial penalties for noncompliance with federal guidelines and regulations, fixed assets, and federal payroll certifications.



- For State-Funded Judicial Operations, we issued an adverse opinion on the Judiciary's compliance with federal program requirements of Temporary Assistance for Needy Families (TANF). The Judiciary charged the continuation cost of expanding its Foster Care Review Board activities to TANF. While the Judiciary was in compliance with the FIA grant agreement, the costs were not allowable under TANF regulations.

In our Single Audits for the two fiscal years ended September 30, 2001, we identified the following material exceptions:

- We identified a material weakness in the Department of Community Health's (DCH's) internal control over financial reporting. DCH had not taken appropriate action to correct a material weakness identified in its biennial assessment of its internal control system. Also DCH controls over financial transactions did not prevent the recording of numerous accounting transactions that needed adjustment during our audit period. These transactions resulted in 23 audit memorandums requesting audit adjustments totaling approximately \$282.8 million. In addition, DCH had not implemented controls to ensure the accuracy of Medicaid inpatient hospital claims and payments. These payments totaled over \$700 million in fiscal year 2000-01.
- We issued a qualified opinion on the Department of Consumer and Industry Services' compliance with Title IV-E program requirements. The Department charged costs associated with licensing activities at facilities such as children's camps, adult foster care camps, training schools, facilities exceeding specified size requirements, and various detention related facilities that are not eligible for Title IV-E Program funds.
- We issued qualified opinions on the Department of Corrections' (DOC's) compliance with the Adult Education – State Grant Program and Residential Substance Abuse Treatment for State Prisoners (RSAT). DOC did not obtain approval from its grantor agency prior to expending federal funds on the purchase of \$65,968 of equipment for the Adult Education – State Grant Program. Federal regulations require capital expenditures for equipment to be approved by the awarding agency in order to be considered allowable as direct costs. Also, DOC did not consistently comply with RSAT program requirements and with established case file internal control procedures for documenting RSAT activities.
- We issued qualified opinions on the Department of Environmental Quality's compliance with Capitalization Grants for State Revolving Funds and Capitalization Grants for Drinking Water State Revolving Fund. The Department did not perform subrecipient monitoring activities for those local entities receiving

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loans under these programs. As a result, the loan disbursements may not have been subject to testing for compliance with applicable federal program laws and regulations.

### **Other Financial Audits**

The OAG conducts financial audits of certain funds and component units of the State. Many of these audits are mandated by State statutes. Based on our risk assessments, the audit cycles for financial audits range from annually to every four years.

We conduct financial audits in conformance with *Government Auditing Standards*; therefore, our audit objectives include (1) assessing and reporting on compliance with certain provisions of laws, regulations, contracts, and grants and on internal control over financial reporting and (2) auditing the financial statements and/or financial schedules.

During fiscal year 2001-02, we completed the following financial audits:

1. Michigan State Fair and Exposition Center, Department of Agriculture
2. State Treasurer's Annual Report
3. Transition in the Office of State Treasurer, Department of Treasury
4. Commercial Mobile Radio Service Emergency Telephone Fund, Department of Treasury
5. School Aid Fund, Department of Education
6. Michigan Legislative Retirement System
7. Department of Civil Service
8. Michigan Liquor Control Commission, Department of Consumer and Industry Services
9. Michigan Strategic Fund
10. Michigan Economic Development Corporation

The following highlights are from one of our other financial audits:

Commercial Mobile Radio Service (CMRS) Emergency Telephone Fund, Department of Treasury

- The Department did not process CMRS Emergency Telephone Fund year-end closing transactions in accordance with generally accepted accounting principles and Department of Management and Budget procedures. This resulted in an overstatement of expenditures of \$5.0 million and an understatement of revenue of \$2.5 million.
- The Department's reconciliation of CMRS supplier collections needs to be completed in a more timely manner to provide an accurate recording of revenue. This resulted in an understatement of revenue of \$2.6 million and an understatement of expenditures of \$1.2 million.

### **Financial Related Audits**

We also conduct financial related audits with the objective of evaluating a portion of the State's internal control related to financial reporting, accounting, controlling assets and State compliance. These audits are conducted on a periodic basis and the audit work done may also provide support for financial statement/schedule assertions.

During fiscal year 2001-02, we completed the following financial related audits:

1. Vendor Payments for the Health Care of Prisoners, Department of Corrections
2. Use of Transportation-Related Funding

Following are highlights from our financial related audits:

Vendor Payments for the Health Care of Prisoners, Department of Corrections (DOC)

DOC needs to improve its monitoring of outstanding claims submitted to Correctional Medical Services (CMS) from medical services providers. To improve DOC's monitoring efforts, it could send inquiries to medical services providers to determine whether provider claims are being processed in a timely manner. Also, DOC could substantiate the reliability of data used to monitor and evaluate CMS's performance.

Use of Transportation-Related Funding

The Department of Management and Budget (DMB), in conjunction with the Michigan Department of Transportation (MDOT), had not established an effective process to ensure that State agencies followed appropriate cost allocation methodologies:

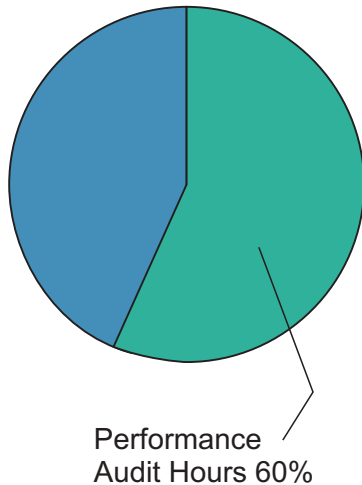
- The Michigan Department of State Police's (MSP's) contract with MDOT specified a cost allocation methodology based on an equal division of the traffic accident

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records program costs among MSP, MDOT, and the Department of State. However, the costs were not allocated equally, resulting in an undercharge to the State Trunkline Fund and an overcharge to the General Fund of \$20,629.

- The Department of Attorney General billed MDOT based on the appropriations act amounts rather than on the source of services provided. This resulted in an overcharge to the Michigan Transportation Fund of \$1,584,908 and an undercharge to the State Trunkline Fund and the Comprehensive Transportation Fund of \$1,509,998 and \$74,910, respectively.
- MDOT had not completed a cost allocation study that identifies all costs associated with activities directed at counties, cities, and villages (local units of government) and identifies methods for the equitable allocation of all costs to the local units of government and the State Trunkline Fund.
- Because the appropriations act provided only a limited amount of funding from the transportation funds, two State agencies did not bill MDOT for all actual costs (underallocated costs). The Department of State had underallocated costs of \$39,788,857, and the OAG had underallocated costs of \$22,400. These underallocations resulted in the General Fund covering more of the costs of these programs that are benefiting the transportation funds. DMB has not established a process to account for these underallocations in future budget requests.
- During our prior year audit, we found that MSP and the Department of Treasury had overcharged MDOT \$149,988 and \$1,071,740, respectively. Neither of these two State agencies made any adjustment to their charges during fiscal year 1999-2000 to adjust for these prior year overcharges.

### Performance Audits



Approximately 60% of our direct audit hours were used for performance audits in fiscal year 2001-02. For purposes of this annual report, we have also included in this category mandated audits with only compliance objectives and audits with a combination of performance and financial related objectives.

Performance audits are conducted on a priority basis related to the potential for improving State government operations. Our primary objective for conducting performance audits is to improve the effectiveness, efficiency, and economy of State government operations. Effectiveness is producing the outcome desired by the citizens of Michigan and mandated by the Legislature, efficiency is a measure of useful services delivered compared with the resources applied, and economy is the prudent use of resources.

Our performance audits found that State departments, agencies, and programs generally operated in an effective, efficient, and economical manner. However, our audits resulted in numerous recommendations for further improving the programs audited.

The OAG has established several goals that relate specifically to our performance audit efforts. The OAG expects the economic impact from all our performance audit findings to exceed the cost of the audits by at least 10 times. This goal was achieved for the audits released in the last three fiscal years measured (1998-99, 1999-2000, and 2000-01).

We also have goals for improving the timeliness of the performance audits and for addressing performance audit issues that are of interest to members of the Legislature and Michigan residents. Our goal is for 95% of the performance audit reports to include audit findings and recommendations to improve the effectiveness and efficiency of the operations of the agency being audited. For audits released in fiscal years 2000-01 and 2001-02, we achieved approximately 98% and 94% of performance audits meeting this goal.

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Following are highlights from some of our performance audits:

Telecommunication Services and Enterprise Security, Department of Management and Budget

Enterprise Security had not conducted a risk assessment to determine the extent of and frequency for performing vulnerability assessments and penetration testing of the network perimeter. An independent network vulnerability assessment should be conducted periodically to help network administrators locate vulnerabilities of the network. Vulnerability assessments should be done on a regular basis or when changes are implemented, and penetration testing should then be conducted to determine whether the discovered vulnerabilities could be exploited.

Construction and Technology Division, Bureau of Highway Technical Services, Michigan Department of Transportation (MDOT)

MDOT needs to establish a review procedure to ensure that documentation supporting bonus performance program determinations is on file and that the determinations are made in accordance with contract provisions. Our review of the program disclosed that two contractors were paid \$800,000 additional incentive as a result of changing the criteria for when the incentive calculation would begin. Also, in four instances, the number of days used for calculating bonus performance determinations were not properly counted, based on the documentation on file at the time of the audit. As a result, we noted the following:

- a. Two contractors were not assessed disincentives totaling \$350,000 and \$4,000, respectively.
- b. One contractor's incentive was overstated by \$15,000.
- c. One contractor received an incentive of \$25,000 rather than a disincentive of \$20,000.

Information Technology Services and the Automated Information Systems, Bureau of State Lottery, Department of Treasury

The Bureau had not fully established a comprehensive information systems security program. The Bureau had not performed a comprehensive security risk assessment for all aspects of its operations, it had not designated an independent information security officer, and its security program did not include the operating environment and information systems of its contractor.

### Division of HIV/AIDS – STD, Community Public Health Agency, Department of Community Health (DCH)

The Division needs to more specifically address adolescents in its procedures for providing HIV/AIDS prevention, education, and outreach services. The Division also needs to continue to improve its contractor monitoring controls to help ensure that contractors fulfill their programmatic and fiscal obligations.

In addition, the Division should continue to improve its processes to evaluate the overall effectiveness of its efforts to accomplish DCH's mission, which is to help State residents be healthier by promoting access to the broadest range of quality services and supports; taking steps to prevent disease, promote wellness, and improve quality of life; and striving for the delivery of those services in a fiscally prudent manner.

### Certificate of Need (CON) Program, Certificate of Need Commission, Department of Community Health (DCH)

DCH, in conjunction with the CON Commission, had not evaluated the CON Program in order to determine whether the CON Program was achieving its goal of balancing cost, quality, and access issues and ensuring that only needed services were developed in Michigan.

Also, DCH did not have effective policies and procedures in place to obtain relevant data needed to monitor facilities' compliance with quality assurance standards and DCH had not taken appropriate remedial actions for facilities identified as not being in compliance with quality assurance standards.

Further, DCH had not sufficiently monitored projects that received an approved CON to help ensure that the projects were completed within the allowed time frame or that facilities submitted required documentation related to CON applications and project contracts on a timely basis.

### Northeast Michigan Community Mental Health Services (NEMCMHS), an Agency Under Contract With the Department of Community Health

NEMCMHS needs to fully implement a comprehensive continuous quality improvement process to evaluate and improve the effectiveness of its service delivery system.

Also, to help ensure that services are delivered in a safe, sanitary, and humane treatment environment, NEMCMHS should obtain criminal history background checks of contractors who provide services to NEMCMHS consumers and also require contractors to obtain similar checks of their employees.



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Bureau of Workers' Disability Compensation, Department of Consumer and Industry Services

The Bureau could improve its continuous quality improvement process by regularly obtaining customer feedback for use in evaluating its effectiveness in administering the Workers' Disability Compensation Act of 1969. Also, the Bureau should expand its efforts to ensure that employers have the required workers' disability compensation insurance coverage. Our audit disclosed that the Bureau could utilize the records of other State agencies to help detect employers who do not have the required coverage.

In addition, the Bureau could more efficiently process insurance and claims data by fully utilizing available computer technology. During calendar year 2000, the Bureau manually processed over 597,000 forms related to insurance coverage, injuries, and benefit payments. Wages of employees who processed these forms were in excess of \$425,000. Bureau management reported that the use of an electronic data interchange could improve the accuracy of the processing of this data and could also eliminate approximately 86% of the current manual processing of forms.

School Restructuring and Accountability Program, Department of Education and Center for Educational Performance and Information

The Department did not accredit school buildings and report such accreditation in compliance with statute and its established process. Our review disclosed that the Department accredits school buildings based solely on student Michigan Educational Assessment Program test results, it inaccurately reported the annual accreditation level of certain elementary and middle school buildings, and it had not updated its accreditation of high school buildings from school year 1996-97 through school year 1998-99.

Also, the Department's methodology for calculating school district retention and dropout rates was not in accordance with statute and may have resulted in the Department's and school districts' reporting of unreliable information. In addition, the Department did not have an effective process for gathering school district accountability data. Both of these conditions affect the usefulness and reliability of key indicators of school district performance.

School-To-Work System (STW) and Career Preparation System (CPS), Michigan Department of Career Development (MDCD) and Department of Education

Michigan Works! Agencies (MWA), in conjunction with local and intermediate school districts, had not implemented a number of local STW program requirements. Our review of local STW program implementation in four MWAs, including 56 participating local school districts and 6 intermediate school districts within the

MWAs' area of responsibility, disclosed that these entities had implemented an average of 18 (72%) of the 25 federal requirements.

Also, MDCCD did not perform a comprehensive evaluation of the effectiveness of STW or specific requirements of STW for use in developing, implementing, and operating CPS. Without evaluating the effectiveness of STW using appropriate performance indicators/goals and obtaining accurate output and outcome data, MDCCD's ability to develop and implement CPS would appear to have been significantly diminished.

Further, MDCCD's internal control was not effective in preventing reimbursement to school districts for unallowable CPS expenditures and in recovering these expenditures when appropriate. Our review of \$1,470,953 in reported and reimbursed CPS expenditures for 13 local and intermediate school districts disclosed that 9 districts expended \$288,597 (20%) for activities, equipment and/or supplies that were unallowable. Without effective internal control, MDCCD had little assurance as to the propriety of CPS expenditures submitted for reimbursement.

### Office of Education Options, Department of Education

The Department did not establish and implement necessary rules, policies, and procedures to monitor the operations of public school academy (PSA) authorizers. The Department's completion of these operational duties and implementation of a risk-based monitoring process for authorizers should provide effective and efficient oversight of PSA operations. Providing such oversight should help ensure that the Legislature's PSA initiative is fully implemented and parental choice of education options is enhanced.

Also, the Department did not provide adequate guidance to PSA authorizers to assist them in identifying and eliminating conflicts of interest regarding PSA operations and oversight. The Department also did not seek legislative changes to address potential conflicts of interest that have arisen with the advent of PSAs.

In addition, the Department did not provide guidance to PSA authorizers to help ensure that management company contracts with PSAs preserve the PSA boards' independence, that management companies provide effective services at a reasonable cost, and that management companies provide services in a manner open to public scrutiny.

Further, the Department should improve its process for approving PSA buildings for occupancy. To provide students with a safe educational environment, it is essential that the Department ensure that all school buildings comply with appropriate fire and sanitation standards. Also, the Department had not established, and provided to

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PSA authorizers and PSAs, specific recommendations to help ensure that PSA facilities are safely operated.

In addition, the Department did not verify that PSA authorizers' internal controls were adequate to ensure the separation of religion from PSA operations.

Real Estate Division, Department of Management and Budget (DMB)

The Real Estate Division did not follow established policies and procedures when it entered into a sales agreement with a private company to sell State surplus property adjacent to the Michigan State fairgrounds. The Real Estate Division did not notify State agencies or local units of government that the property was declared surplus and available for acquisition as required by DMB Administrative Guide. In addition, the Real Estate Division did not obtain competitive bids from the public and did not include contract language that would have protected the State's interest.

Source Reduction and Recycling Activities, Department of Environmental Quality (DEQ)

DEQ could extend its efforts to facilitate the Statewide residential recycling of waste materials. DEQ's absence of Statewide recycling leadership was demonstrated by the lack of systematic collection of basic recycling information, of training provided to outside parties, and of direction and implementation guidance to agencies and organizations.

University of Michigan – Flint

The University should monitor repetitive course enrollment and identify and counsel those students who are not making satisfactory academic progress. Also, the University should develop and implement a formal written policy that limits repetitive course enrollments. The audit noted a large number of students who enrolled in a course 3 to 11 times.

University of Michigan – Dearborn

The University needs to enhance its efforts to ensure that the verbal communication of its teaching faculty members is sufficiently clear to be easily understood by students. The audit noted that a high percentage of students in some classes, as indicated on a University survey, felt that the faculty members' speech was unclear.

Federal Cash Management Improvement Act (CMIA) Program, Department of Treasury

The CMIA agreement between the Department and the U.S. Department of Treasury contained ambiguous instructions for developing clearance patterns. Also, the instructions were incompatible with instructions for requesting federal funds. Our

review of the Department's clearance patterns disclosed that State departments requested federal funds using business days rather than calendar days. If State departments used calendar days instead of business days, funds could have been requested earlier for 11 of the 27 federal programs. This would have resulted in interest to the State for fiscal year 1999-2000 of approximately \$1.5 million prior to the Department receiving clarification from the U.S. Department of Treasury to use calendar days.

### Appellate Defender Commission, Judiciary

The Michigan Appellate Assigned Counsel System (MAACS) needs to expand its efforts to resolve complaints regarding roster attorneys in a timely manner. We reviewed the complaint investigation reports and noted 27 unresolved complaints as of April 30, 2001. We noted that 25 of the 27 complaints were filed over one year before our date of testing. Seventeen were filed over two years prior, and 4 were filed more than four years prior to our testing. Because MAACS did not resolve all complaints in a timely manner, it does not have assurance that the court-appointed attorneys provided quality representation.

### Collection Division, Department of Treasury

The Division did not consistently record tax liens on the property of delinquent taxpayers as required by established procedures. We reviewed a sample of 99 delinquent tax accounts with installment payment agreements in active collection status. We determined that 5 (5.1%) of these accounts, with balances due totaling \$173,916, had assessments over the established limits and tax liens had not been recorded on the property of the delinquent taxpayers. We determined that 8.3% of accounts assigned to the private collection agency, with balances due totaling \$676,789, had assessments over the established limits and tax liens had not been recorded on the property of the delinquent taxpayers. Liens should have been recorded for these taxpayers.

### Prisoner Benefit Funds, Prisoner Store Programs, and Prisoner Accounts, Department of Corrections (DOC)

DOC needs to improve its monitoring of inactive and duplicate prisoner accounts to ensure greater accountability and collection of prisoner debt. As of February 2001, there were approximately 46,000 prisoners; however, DOC accounting records included approximately 69,000 prisoners listed with approximately 108,000 active and inactive accounts. Our review disclosed that DOC did not maintain a consolidated prisoner account for every prisoner. As a result, prisoners can have as many prisoner accounts as prisons they have been confined in. Also, DOC did not dispose of 400

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deceased prisoners' accounts, 17,000 inactive and 6,000 negative balance accounts, or 22,700 prisoner accounts representing approximately \$1.2 million of institutional debt. In addition, we noted approximately 3,200 parole loans totaling \$500,000 that were not disposed of. Some of these loans were made in 1984 and approximately 1,800 loans totaling approximately \$320,000 involved prisoners who had been discharged from parole.

Motor Fuel, IFTA/Motor Carrier, Tobacco Taxes and Registration Division, Department of Treasury

The Division had not compared fuel import and export transactions reported on fuel hauler reports with fuel imports and exports reported on motor fuel supplier and wholesaler tax returns. Such a procedure would add assurance that suppliers and wholesalers have properly included import and export transactions in the calculation of taxable fuel on their tax returns.

Selected Internal Service Funds, Department of Management and Budget (DMB)

DMB did not effectively prevent some internal service funds or their programs from exceeding working capital reserve limits.

Our review of working capital reserves of each internal service fund and its programs disclosed:

- The Risk Management Fund had reserves exceeding 60 days of working capital from fiscal year 1996-97 through fiscal year 2000-01. The Fund had excess reserves of 140 days (\$929,333) at the end of fiscal year 2000-01.
- The Michigan Information Center Program of the Information Technology and Energy Fund had reserves that exceeded 60 days of working capital by 68 days (\$581,000) at the end of fiscal year 1999-2000 and by 89 days (\$770,618) at the end of fiscal year 2000-01.

### Legislative Requests

OAG reports provide objective, unbiased, and independently developed information that members of the Legislature confidently use in making State policy decisions. The OAG responds directly to requests from the Legislature to review activities, programs, or funds not included in the scope of scheduled audits. Legislators often become aware of problems or areas of concern and communicate them to the OAG for review. Legislators' intimate knowledge of State government programs and their close contact with constituents provide an important resource for the OAG's risk assessment process for identifying audit priorities.

Responding to legislative requests is an important function of our office because the OAG is the only agency in State government that has the sole responsibility to act as the overseer of public funds on behalf of the Legislature.

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***Responding to legislative requests is an important function of our office.***

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Sometimes the OAG addresses legislative requests within the scope of performance audits. In other instances, if the scope of the request is narrow and/or time is of the essence, the requests are satisfied through special projects and review reports. Requests frequently result in the OAG evaluating program outcomes, analyzing program expenditures, and determining if program operations were in compliance with applicable statutes and regulations.

The OAG's responsiveness to legislative requests clearly serves the public interest. Most audits and reviews resulting from legislative requests have confirmed the existence of problems and resulted in recommendations to correct or improve government operations, sometimes through amendatory legislation. Our responsiveness enhances the Legislature's ability to carry out its oversight responsibilities in a way that is consistent with the best interests of the citizens of Michigan.





### The Michigan Legislature

The legislative power of the State of Michigan is vested in a bicameral (two-chamber) body comprised of the Senate and the House of Representatives. The Senate consists of 38 members and the House of Representatives consists of 110 members.

The State Legislature enacts the laws of Michigan; levies taxes and appropriates funds from money collected for the support of public institutions and the administration of the affairs of State government; proposes amendments to the State Constitution, which must be approved by a majority vote of the electors; and considers legislation proposed by initiatory petitions. The Legislature also provides oversight of the executive branch of government through the administrative rules and audit processes, committees, and the budget process; advises and consents, through the Senate, on gubernatorial appointments; and considers proposed amendments to the Constitution of the United States. The majority of the Legislature's work, however, entails lawmaking. Through a process defined by the State Constitution, statute, and legislative rules, the Legislature considers thousands of bills (proposed laws) during each two-year session.



### National Awards

#### **Governmental Accounting Standards Board (GASB)**

The State of Michigan received national recognition from GASB in spring 2002 for the fiscal year 2000-01 *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Michigan was the first large state to successfully implement the new accounting standards and the government financial reporting model (GASB Statement Nos. 33 through 38) one year earlier than required. The OAG played a key role in ensuring the propriety and timeliness of the *SOMCAFR*. The OAG reviewed and commented on the implementation plans and policies and audited the *SOMCAFR* for compliance with the new standards.

The fiscal year 2000-01 *SOMCAFR* is an excellent example for other states to follow in implementing these new standards. The OAG has provided training and other assistance to other states and local governments on implementing the new reporting model and accounting standards and the additional audit tests and procedures necessary to audit the new model. The Certificate of Recognition states: "The implementation of Statement 34 results in better financial information to a government's taxpayers, governing board, and other financial statement users. Early implementation of Statement 34 is a testament to your professional leadership, initiative, and commitment to improving public accountability."

#### **National Legislative Program Evaluation Society (NLPES)**

The OAG actively participates in NLPES, which is associated with the National Conference of State Legislatures. All legislative staff who conduct program evaluations or performance audits are NLPES members. NLPES promotes professionalism, training, and the exchange of ideas and information about legislative program evaluation.

NLPES annually solicits its members to submit one released report for consideration of an "Impact Award." This national award honors participating legislative offices that have produced work which has demonstrably improved state government. NLPES's selection criteria for the award are:

- Dollar savings from implementing audit recommendations.
- Program improvements as a result of implementing audit recommendations.
- Impacts from the legislature's perspective.
- Impacts from the public perspective.
- Impacts from other organizations' perspectives.

The OAG earned impact awards in both fiscal years 2001-02 and 2000-01. These national awards recognized the OAG's continued efforts. The OAG has earned impact awards for all four years that the OAG has participated in the NLPES Awards Program.

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### **2001 NLPES Impact Award**

The OAG received a 2001 Impact Award for the performance and financial related audit of the Child Development and Care Program, Family Independence Agency (FIA). The audit team consisted of Michael Laycock, Brian Hovey, Daniel Jaroche, Beth Larson, Piper Metz, and Andrew Mitchell.



This audit report contained 8 findings, 4 of which were material conditions, and 13 corresponding recommendations. The report demonstrated the need for FIA to ensure that affordable and quality child care is available for Michigan's citizens. In response, FIA agreed with all of the recommendations and informed us that it has been working to implement corrective actions to improve both accessibility and safety for the children served.

### **2002 NLPES Impact Award**

The OAG received a 2002 Impact Award for the performance audit of the Michigan Educational Assessment Program (MEAP), Department of Education and Department of Treasury. The audit team consisted of Gerald Schwandt, Brian Kent, Andrew Mitchell, and Michael Ventura.



This audit report contained 8 findings, 2 of which were material conditions, and 10 corresponding recommendations. The report demonstrated the need to improve MEAP's effectiveness in assessing and improving students' academic knowledge and skills. In response, the Program agreed with 9 of the recommendations, proposed an alternate approach for 1 recommendation, and informed us that it has implemented many corrective actions to improve MEAP's effectiveness.

### **Audit Operations Project Team Award**

The Audit Operations Project Team Award (AOPTA), established in 1992, continues to recognize exceptional efforts of project teams within the Bureau of Audit Operations on a biannual basis.

#### September 2000 AOPTA

The performance audit of the Michigan Schools for the Deaf and Blind (MSDB), Department of Education, was the recipient of the AOPTA for the six months ended September 30, 2000. The audit team consisted of Mary Martin, supervisor, and team members Carol O'Callaghan and Stacie Sampson with software assistance by Andrew Mitchell.

The audit report contained 10 findings, 2 of which were material conditions, and 10 corresponding recommendations. The findings addressed issues pertaining to the future operation and viability of MSDB and the effectiveness of services provided to deaf and hard-of-hearing individuals and individuals who are visually impaired.

The audit team did a fine job of assessing MSDB's operations, which had changed significantly with the merger of the School for the Blind and the School for the Deaf. In its preliminary response, the Department indicated that it agreed with all of the recommendations. The Department's implementation of corrective actions should result in improved services to select groups of Michigan citizens, most of which are children.



The award for the six-month period ended September 30, 2000 was presented to the team of (left to right) Andrew Mitchell, Stacie Sampson, Carol O'Callaghan, and Mary Martin.

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### March 2001 AOPTA

The Single Audit of the Michigan Department of State Police was the winner of the AOPTA for the six months ended March 31, 2001. The audit team consisted of Amy Zimmerman, supervisor, and team members Jill Gard, Mary Kay Mays, Lori Mullins, and Rod Wlock.

The report contained 8 findings and recommendations that provided important feedback to the Department on how to improve internal controls, financial operations, and cash management practices and how to maximize federal funds. The Department agreed with all of the findings.

This audit is an excellent example of an efficient and quality financial audit that was well planned, well executed, and issued in a timely manner. The preliminary planning was thorough and the crew efficiently implemented the new Office of Management and Budget Circular A-133 requirements, including the new risk-based approach and the new control documentation and evaluation standards. The audit crew did an excellent job coordinating with the agency to keep the project moving without unnecessary delays and maintained a good working relationship with the agency staff.



The award for the six-month period ended March 31, 2001 was presented to the team of (left to right, seated) Amy Zimmerman, Rod Wlock, (left to right, standing) Lori Mullins, Mary Kay Mays, and Jill Gard.

### September 2001 AOPTA

The performance audit of the Wayne County Community College District (WCCC) was the recipient of the AOPTA for the six months ended September 30, 2001. The audit team consisted of Scot Hazel, supervisor, and team members Duane Smiley and Scott Werner with software assistance by Andrew Mitchell.

The audit report contained 10 findings, 3 of which were material conditions, and 13 corresponding recommendations. The findings addressed issues including the identification and collection of significant revenue, tuition and fee refunds, improper expenditures, and student academic placement and progress. It is critical that WCCC comply with 2 of the material findings to help maintain its fiscal stability.

The audit team did a fine job of performing the various audit functions that resulted in the exceptional audit report. In particular, the thorough preliminary planning identified the most important issues on which to focus the audit and the team performed the audit methodology in a logical and efficient manner. Also, the due process on this project went extremely well as ongoing discussions with the chancellor provided for an open dialogue on the issues. In its response, WCCC indicated that it agreed with the findings and that it had implemented or planned to implement all 13 recommendations. This report should be very useful to the WCCC and its stakeholders in making future decisions regarding WCCC's operations.



The award for the six-month period ended September 30, 2001 was presented to the team of (left to right) Scott Werner, Duane Smiley, Scot Hazel, and Andrew Mitchell.



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### March 2002 AOPTA

The review of the Detroit Metropolitan Wayne County Airport was the winner of the AOPTA for the six months ended March 31, 2002. The audit team consisted of supervisors Sherri Irwin, William Harper, Beau Hill, and Silhouette Street and team members Yvonne Benn, Heather Boyd, Julius Hampton, Daniel Jaroche, Timothy Johnson, Pamela Platter, Gregory Schroll, Tamara Torongo, Jill Trepkoski, and Michael Ventura.

Throughout this project, the audit team worked in a stressful environment and under highly challenging conditions. The team was persistent in its efforts to address requests posed by a Joint Legislative Select Committee, while meeting tight deadlines despite lack of cooperation from Airport officials. The audit team did an exceptional job in performing the various aspects of this unique legislative request. The audit team exercised significant discretion, creativity, and initiative in taking general legislative requests and devising methodologies to provide key information to assist the Joint Legislative Select Committee in gaining an understanding of Airport operations. This was the first comprehensive examination of the Airport in its 71-year history.

Team members admirably represented the OAG under fire when called to testify in numerous legislative hearings regarding most of the 23 reports. Despite extreme scrutiny in the legislative hearings, team members successfully defended the OAG's methodologies and information contained in the reports. The ability, effort, cooperative attitude, and chemistry of the audit team were instrumental in contributing to the overall success of this project, resulting in a significant and positive contribution to air travelers and the citizens of this State.



The award for the six-month period ended March 31, 2002 was presented to the team of (left to right) Daniel Jaroche, Timothy Johnson, Michael Ventura, Tamara Torongo, Beau Hill, Pamela Platter, Gregory Schroll, Jill Trepkoski, Julius Hampton, Heather Boyd, Silhouette Street, Yvonne Benn, and William Harper. Missing from the picture is Sherri Irwin.

Our audit effort requires the support of three organizational units: the Office of Professional Practice, the Office of Information Technology, and the Office of Administration.

### Office of Professional Practice

The Office of Professional Practice support services include performing quality assurance reviews of audit reports and working papers; editing the audit reports for substance, correctness, and style; and conducting accounting and auditing research to keep staff abreast of ever changing professional standards, pronouncements, and trends. Also, the Office coordinates the National State Auditors Association triennial external quality control review (peer review) of the OAG, as well as the OAG's participation in the peer reviews of other states' audit agencies.

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#### *Oversees the quality control system of the OAG*

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The Office of Professional Practice oversees the traditional quality control system of the OAG and provides guidance to audit division administrators, audit managers, and supervisors to improve audit services and reports prior to completion of the fieldwork. The Office also provides assistance to professional staff to ensure that all audit reports and working papers meet not only the standards of our profession but also the high quality standards of the OAG. In addition, the Office has developed quality improvement goals that complement the vision, goals, and objectives developed by the Bureau of Audit Operations.

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#### *Reviews audit reports and working papers to ensure compliance with professional standards*

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### Quality Assurance

Quality Assurance staff review OAG audit reports and related working papers to ensure compliance with professional standards issued by the Governmental Accounting Standards Board, the Comptroller General of the United States, and the American Institute of Certified Public Accountants, as well as policies and procedures of the OAG. These quality assurance reviews, conducted in conjunction with management's report review and the report editing functions, are a fundamental part of our overall system of quality control. The reviews provide an assessment of audit quality, both on individual audits and on an officewide basis, and identify issues requiring further policy and procedure development. During the course of our audit fieldwork, audit staff frequently consult with Quality Assurance staff on issues related to conducting and reporting on the various types of audits.

Quality Assurance staff also conduct reviews of selected audit engagements performed by contracted public accounting firms



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to determine compliance with contract provisions and adherence to professional standards. In fiscal year 2001-02, the OAG contracted with public accounting firms to perform 21 separate audit engagements.

### **Audit Report Review**

Well-written audit reports clearly convey the results of our audit effort to the reader. To accomplish this, Audit Report Review edits the audit reports for substance, correctness, and style. The substance portion of the review determines that the report is clear, concise, and conceptually sound and adheres to relevant standards for content and form; the correctness portion of the review ensures the use of proper grammar and consistent terminology; and the style portion of the review focuses on OAG preferences for language and composition.

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***Edits the audit reports for substance, correctness, and style***

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In addition to the editing function, Audit Report Review staff provide assistance to audit staff regarding report processing, report format and style, and grammar. Also, Audit Report Review staff maintain the OAG Style Manual, which is designed as a practical guide to assist audit staff in writing audit reports.

### **Research and Professional Standards**

Research and Professional Standards provides timely professional and technical assistance on accounting and auditing issues to management and staff, facilitates the development of officewide policies and procedures relating to professional standards and practices, and maintains a professional reference library. We continue to implement new computer-assisted research programs, as they become available, to more efficiently provide assistance to staff. The ongoing revision of the OAG Auditor's Manual has resulted in more than 50 audit procedures and directives to ensure compliance with applicable professional standards and to increase the effectiveness and efficiency of our audit activities.

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***Provides timely assistance on accounting and auditing issues***

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Research and Professional Standards develops responses to technical discussion memorandums, exposure drafts, and issue papers of various national professional organizations, such as the Governmental Accounting Standards Board, U.S. General Accounting Office, American Institute of Certified Public Accountants, National State Auditors Association, Federal Accounting Standards Advisory Board, and Government Finance Officers Association. Also, we contribute to the profession by making frequent presentations at conferences and seminars of professional organizations and by participating on their standing committees.

### Office of Information Technology

The Office of Information Technology (OIT) is responsible for managing our local area network, maintaining our management information system, and providing computer support and software assistance to our staff. OIT has a staff of 14 highly trained professionals who help ensure the OAG continues its standing as a leader in the use of information technology for audit.

#### Local Area Network and Computer Support Section

This Section maintains the OAG local area network and management information system and provides end-user computing (EUC) support to our audit staff. Our local area network, through its connection to the State of Michigan's Wide Area Network, permits both our central office staff and staff at on-site audit locations to share automated information and to communicate vital information electronically. The network provides users with electronic working paper, word processing, spreadsheet, e-mail, Internet browser, automated information analysis, and database software capability. It also provides users with access to our management information system, which contains audit report tracking, personnel, and project management information. EUC support is provided in the form of hardware and software problem solving, hardware maintenance, and software training. The Section also ensures that each auditor has a computer and the necessary software to assist in the performance of an audit.

In fiscal year 2001-02, we upgraded our computer operating system software, word processing and spreadsheet software, and network software. This ensures compatibility with agency-created automated information provided for audit and provides us with new software features to promote an efficient work environment. We also have fully tested and implemented network software that permits us to automatically upgrade the software on all OAG notebook and desktop computers via our network. This eliminates the need to individually install software upgrades. We are also in the process of expanding our use of this software to permit our Help Desk staff to resolve software questions and computer problems on site. This eliminates the need to transport the computer to resolve software problems.

We upgraded our computers to provide our audit staff with the processing power to support our expanded use of electronic

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***The OAG network provides users with electronic working paper, word processing, spreadsheet, e-mail, Internet browser, automated information analysis, and database software capability***

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working papers, automated information analysis, e-mail, and the Internet.

Our Internet web site includes complete audit reports, a search function, and a "list-serve" function. Visitors to our Web site have the ability to search for specific audit reports and then download the audit reports. Visitors can also sign-up on our "list-serve" to automatically receive a copy of the report summary of all newly released audit reports via e-mail.

We continued to expand the content of our Intranet. Recently, we added our automated manuals and expanded our sections to quickly access the *Michigan Compiled Laws*, federal regulations, and State of Michigan policies and procedures.

Our goals for next fiscal year are to upgrade our network software, install a new high speed and high capacity network tape backup system, increase the processing speed of our network servers, install a new network switch, upgrade our e-mail software, expand the use of our Internet web site and our Intranet to quickly provide information, and continue our aggressive training plan to obtain the knowledge base that is necessary to better serve the information technology needs of the OAG.

### **Software Assistance Section**

This Section analyzes automated information stored in any electronic format to assist OAG staff during audit fieldwork. We have the ability to extract and analyze any automated information for audit. This analysis includes both mainframe and microcomputer programming to manipulate and analyze automated financial and nonfinancial records (e.g., licensing, college student enrollment, and public assistance) for audit.

In fiscal year 2001-02, we continued our emphasis to develop standard server-based applications to analyze automated information for audit. This continues to reduce turnaround time for automated information analysis requests, and it has helped to establish standardized audit processes. Effectiveness and efficiencies also have resulted from our cross-trained and permanently assigned software assistance staff.

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***The OAG has the ability to extract and analyze any automated information for audit***

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We continued to provide computer hardware and software training to OAG staff, as well as providing software assistance to all financial and performance audits. Our analysis of automated information identified weaknesses in agency automated systems and internal control. It also provided documented support for audit findings contained in our audit reports.

Our goals for next year are to continue to develop standardized automated extraction and analysis procedures to access agency automated information; provide training to the Bureau of Audit Operations staff to more effectively use the automated information analysis and extract software; and continue an aggressive training plan to ensure that OIT Software Assistance Section staff obtain the knowledge base to better serve the automated information analysis needs of the OAG.

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## Office of Administration

The Office of Administration provides human resource management; Michigan Administrative Information Network (MAIN), Data Collection and Distribution System (DCDS), and Human Resources Management Network (HRMN) implementation and administration; computer-assisted graphics support services; accounting and budgeting; audit report production; and officewide printing, purchasing, and clerical support.

### Human Resources

The delivery of human resource services is of prime importance to our organization. We strive to develop and implement innovative and effective strategies to enhance recruiting, staff development, and personnel management. The early retirement bill enacted in 2002 will have a significant impact on our organization. We expect 15 employees to retire under the early retirement provisions. This represents approximately 10% of our audit staff and in excess of 20% of our experience base. It also includes key executive staff, audit division administrators, audit managers, and several high-level audit supervisors. It will be an ongoing challenge to replace these individuals and continue to provide quality services.

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*... strive to develop and implement innovative and effective strategies to enhance recruiting, staff development, and personnel management*

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### Recruiting

Because of budget constraints, we had limited campus recruiting activities. During the past two years, we successfully recruited and hired 7 student assistants for limited term appointments, 3 full-time auditors, 1 full-time information technology technician, and 1 reproduction machine operator for our Office Services unit.

### Staff Development

We place great importance on developing and retaining staff. All staff members are encouraged and provided the opportunity to develop their professional skills. In addition, the Comptroller General of the United States, the American Institute of Certified Public Accountants, and the State Board of Accountancy require members of the profession to annually obtain continuing professional education. For example, *Government Auditing Standards* require that auditors complete at least 80 hours of continuing education every two years. In fiscal years 2000-01 and 2001-02, the OAG provided approximately 10,600 and 14,300 hours, respectively, of

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*Professional standards require 80 hours of continuing education every two years*

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continuing education. Training focused on writing effective audit findings; improving Single Audit and performance auditing skills; evaluating audit risk; transaction testing using the State of Michigan's accounting system; and an overview of the State of Michigan legislative process and the effects of term limits. We provided technical training that covered numerous topics, including an overview of the State's payroll system as well as the human resources processing system. We also provided discriminatory harassment and workplace safety training to our entire staff, increasing their understanding of what constitutes discriminatory harassment and how it applies to the workplace, as well as how to protect oneself on and around the job site.

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Certified Public Accountants .....	85
Certified Internal Auditors .....	6
Certified Information Systems Auditors .....	10
Certified Management Accountants .....	1
Master's Degrees .....	14
Doctorate in Public Administration.....	1
Associate's Degrees in Data Processing .....	6

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As part of staff development, we actively support auditors seeking professional certification and advanced degrees through our administrative leave policy and our tuition reimbursement program. Of our 155 professional audit staff, 87 have obtained certification from one or more of the various professional certification programs. The OAG professional audit staff includes 85 certified public accountants, 6 certified internal auditors, 10 certified information systems auditors, and 1 certified management accountant. We also have 14 staff members who have earned master's degrees, 1 staff member who has earned a doctorate, 1 staff member who has a Juris Doctor degree, and 1 doctoral candidate. In addition, we have had 6 staff members complete associate's degrees in data processing, in addition to their bachelor's degrees.

During fiscal years 2000-01 and 2001-02, the following OAG staff members became certified public accountants:

Anthony A. Alvord  
Ryan J. Chittaro  
Diane L. DeLuca  
Lisa S. Harral  
Daphne Y. Hobson  
Pamela M. Huffman  
Constance M. Jones  
Dennis M. McMillan  
Silhouette T. Street  
Audra C. Turner  
Michael J. Ventura

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Many OAG auditors are active in professional organizations including: the American Institute of Certified Public Accountants; the Michigan Association of Certified Public Accountants; the Government Finance Officers Association; the Association of Government Accountants; the National Association of State Auditors, Comptrollers, and Treasurers; the National State Auditors Association; the Institute of Internal Auditors; the Midwestern Intergovernmental Audit Forum; the State Association of Accountants, Auditors, and Business Administrators; the National Legislative Program Evaluation Society; and the Information Systems Audit and Control Association. Many of these organizations have continuing representation from our office on an official basis at their respective meetings.

### **Accounting and Budgeting**

We faced several challenges during fiscal year 2001-02 resulting mainly from reduced State revenues. Like other State departments and agencies, our appropriation was reduced, which led to a number of uncertainties as we planned our spending for the year. Fortunately, these reductions came early in the year, which gave us more time to address the issues.

All of our staff worked together to meet this budget challenge. One of the major contributors to our success was the fact that a number of employees voluntarily reduced the hours they worked and were paid. We implemented other cost saving measures as well. For example, we reduced the number of travel audits and, as a result, reduced the associated travel costs.

In addition to our other duties, we also planned for the accelerated closing of the books for the State. We expect to meet the accelerated closing deadlines established for the OAG and have our books closed by mid-November. It was an interesting and challenging year.

### **Project and Security Management Section**

This Section provides ongoing agency oversight of and security administration for MAIN, DCDS, HRMN, the Management Information Database (MIDB), and the MAIN Access Panel (MAP).

The Section also coordinates compilation and production of our Annual Report and other reports and documents. It uses a variety of electronic publishing hardware and software to create, revise, and enhance our Annual Report, audit reports, office forms, and stationery. Electronic publishing impacts most aspects of OAG operations, enhances the readability of the OAG's published materials, and eliminates the need for external contracting.



### **Office Services**

Office Services is responsible for providing numerous services to all OAG staff. These services include:

- Printing and publishing of OAG audit reports, the Annual Report, the recruiting brochure, and numerous other documents.
- Assisting in the design and preparation of training and conference materials.
- Ordering, receiving, and stocking of office supplies and equipment.
- Arranging for the surplus and salvage of OAG materials, equipment, and furniture.
- Recycling activities.

Several years ago, we completed an evaluation of the printing and copying equipment in Office Services. We decided to move towards on-line digital printing, and the recent acquisition of a color copier and two digital copying machines have brought us closer to realizing our goal of publishing reports with an on-line network process. With further development of software, our print-on-demand service will become even more efficient. In addition, this utilization of new technology has made it possible for us to reduce the space needed for our operation and to provide additional work area for our audit staff.

We continue to assess the items we carry in our closed stockroom and, after evaluating the need for these items, we relocate commonly used supplies to the open stockroom to allow for greater accessibility for all staff. We also continue to evaluate our ordering and stocking processes to reduce redundancy and improve the entire process.

### **Clerical Support**

The major function of Clerical Support is to type and format submitted audit reports for processing and issuance. Clerical Support is also responsible for distributing audit reports, manuals, and letters; operating the telephone switchboard and reception desk; and maintaining various internal records.

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Clerical Support employees are cross-trained and, because of the local area network, can perform their duties at any of several office work stations. Employee cross-training and full utilization of the network have enabled us to minimize our staffing needs.

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***Cross-training and automation have enabled the OAG to minimize staffing needs***

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**Payroll/Management Information System (MIS) Input Unit**

The major function of the Payroll/MIS Input Unit is to process payroll transactions for OAG employees. The Unit enters employee time sheets, processes biweekly time and attendance reports, and enters time and attendance into DCDS.

The OAG requires that all staff hours be properly accounted for. To assist in this effort, the Payroll/MIS Input Unit enters budget hours and direct hours for all OAG activities. The Unit is also responsible for preparing audit report related information for inclusion on our Internet web site.

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## **Office of the Auditor General Reports and Other Information**

An audit report and its supporting evidence is considered confidential until its official release to the Legislature, general public, and the press. Once a report has been released, it is public information and, as such, is available upon request.

Reports or information about our office can be obtained as follows:

- **By written request** directed to:

Office of the Auditor General  
Victor Center, Sixth Floor  
201 N. Washington Square  
Lansing, Michigan 48913

- **By telephone**, call us at (517) 334-8050
- **By FAX** at (517) 334-8079. Please include your name, address, and the specific reports or other information wanted in your request
- **On the Internet** at *<http://www.state.mi.us/audgen>*

## AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED DURING FISCAL YEAR 2001-02

- \* Special report.
- \*\* Letter report issued to the Department's director or the Authority's chairperson.
- R Audit required by law.
- N/A Not applicable.

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
AGRICULTURE, DEPARTMENT OF				
79-305-01	Michigan State Fair and Exposition Center - R <i>The Department is responsible for conducting an annual Michigan State Fair and other exhibits or events to promote all phases of the economy of the State.</i>	Financial	3	1
ATTORNEY GENERAL, DEPARTMENT OF				
11-200-01	State Activities Related to Nonprofit Organizations, Department of Attorney General and Department of Consumer and Industry Services <i>As of December 2000, the State had 57,013 domestic nonprofit corporations, 1,016 foreign nonprofit corporations, and 7,597 registered charitable organizations.</i>	Performance	4	0
CAREER DEVELOPMENT, MICHIGAN DEPARTMENT OF				
45-205-99	School-To-Work System and Career Preparation System, Michigan Department of Career Development and Department of Education <i>Effective January 1, 2000, the Michigan Department of Career Development administers the School-To-Work and the Career Preparation Systems.</i>	Performance	10	0
45-240-01	Michigan Rehabilitation Services <i>The agency assists persons with disabilities in achieving employment and self-sufficiency and operates 15 district offices.</i>	Performance	11	1
CIVIL SERVICE, DEPARTMENT OF				
19-105-01	Department of Civil Service	Financial	0	0

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED  
DURING FISCAL YEAR 2001-02

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
COMMUNITY COLLEGES				
32-240-01	Lansing Community College - R <i>The Community College is a public, two-year institution of higher education offering academic, vocational-technical, and continuing education programs.</i>	Performance	8	0
32-300-01	North Central Michigan College - R <i>The College is a public, two-year institution of higher education offering academic and occupational degree programs. The College also offers bachelor's and master's programs in partnership with three universities.</i>	Performance	7	0
COMMUNITY HEALTH, DEPARTMENT OF				
39-100-01	Department of Community Health - R	Single	7	3
39-482-01	Northeast Michigan Community Mental Health Services, an Agency Under Contract With the Department of Community Health <i>The agency provides a range of mental health services to residents of Alcona, Alpena, Montmorency, and Presque Isle Counties.</i>	Performance	4	0
39-643-01	Division of HIV/AIDS - STD, Community Public Health Agency <i>The Division collaborates with numerous other State, federal, regional, and local entities and individuals to help prevent the spread of HIV/AIDS and sexually transmitted diseases (STD).</i>	Performance	13	0
39-644-01L	Certificate of Need Program, Certificate of Need Commission <i>The Program is intended to regulate the health care industry in Michigan by balancing cost, quality, and access issues and ensuring that only needed health care services are developed.</i>	Performance	7	0
CONSUMER AND INDUSTRY SERVICES, DEPARTMENT OF				
63-100-02	Department of Consumer and Industry Services - R	Single	3	0
63-160-02	Michigan Liquor Control Commission <i>The Commission provides oversight of the distribution, licensing, and sale of liquor, beer, and wine and enforcement of the Michigan Liquor Control Code.</i>	Financial	0	0

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED  
DURING FISCAL YEAR 2001-02

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
63-470-00	Bureau of Workers' Disability Compensation <i>Covered employers compensate workers for injuries suffered on the job, including certain wage loss benefits, the cost of medical treatment, and certain rehabilitation services.</i>	Performance and Financial	6	2

CORRECTIONS, DEPARTMENT OF

47-100-02	Department of Corrections - R	Single	3	1
47-216-01	Macomb Correctional Facility <i>The Facility is a minimum and medium security facility for males.</i>	Performance	1	0
47-305-00	Vendor Payments for the Health Care of Prisoners <i>Effective April 1, 1997, the Department entered into a contract to provide Statewide managed health care services for prisoners.</i>	Financial	1	0
47-380-01	Prisoner Benefit Funds, Prisoner Store Programs, and Prisoner Accounts <i>The Department acts in a fiduciary capacity on behalf of the prisoners in managing these funds, programs, and accounts.</i>	Performance	5	2

EDUCATION, DEPARTMENT OF

31-100-02	Department of Education - R	Single	5	0
31-122-01	School Aid Fund <i>The Fund is provided for by the State Constitution to furnish aid to school districts. Payments to school districts are based on statutory formulas.</i>	Financial	0	0
31-135-01	Office of Education Options <i>The Office is responsible for various program areas, such as public school academies, boarding schools, talent development, schools of choice, alternative education, and international programs.</i>	Performance	28	0
31-180-99	Office of Special Education and Early Intervention Services <i>The Office administers and funds Michigan's special education and early intervention programs, including the determination of eligibility and the provision of intervention and educational services.</i>	Performance	8	0
31-201-00	School Restructuring and Accountability Program <i>The Program is administered by the Department's Office of School Excellence.</i>	Performance	7	0

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED  
DURING FISCAL YEAR 2001-02

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
ENVIRONMENTAL QUALITY, DEPARTMENT OF				
76-100-02	Department of Environmental Quality - R	Single	0	1
76-110-01	Source Reduction and Recycling Activities <i>The Department incorporates pollution prevention goals within its regulatory and permit programs and also informs, assists, educates, and provides funding for reduction in environmental waste.</i>	Performance	2	0
76-601-01L	Sewage Funding Needs <i>The Clean Water Act of 1972 authorized funding to local units of government, primarily for wastewater treatment plant construction. States receive matching grants from the federal government to provide construction loans to communities.</i>	Performance	0	0
FAMILY INDEPENDENCE AGENCY				
43-142-01	Michigan State Disbursement Unit, Office of Child Support <i>The Unit centrally collects and disburses certain child support payments as required by federal child support enforcement program requirements.</i>	Performance	9	0
43-178-01	Children's Trust Fund <i>The Fund was created to receive funds for the prevention of child abuse and neglect.</i>	Performance	0	0
43-271-97F	Follow-Up Review of Juvenile Justice Services <i>The Bureau of Juvenile Justice and the Purchased Care Division are within the Family Independence Agency's Child and Family Services Administration. Juvenile justice field staff are located within the Field Operations Administration.</i>	Performance	N/A	N/A
43-277-99	Early Intervention Services for Delinquent Youths <i>Delinquent youths who are placed in community-based settings may receive early intervention services in an attempt to rehabilitate the youths.</i>	Performance	20	0
43-350-97F	Follow-Up Review of the Families First of Michigan Program <i>The Program was established by the Legislature in 1988 to provide an in-home services alternative to out-of-home placement of children because of substantiated child abuse, child neglect, or delinquency.</i>	Performance	N/A	N/A



AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED  
DURING FISCAL YEAR 2001-02

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
43-625-02L	Undistributed and Undistributable Child Support Collections, Child Support Program, Office of Child Support <i>County Friend of the Court (FOC) offices periodically review undistributed child support collections and, if unable to distribute, designate these funds as undistributable. FOC's are required to transfer undistributable child support collections to the Department of Treasury.</i>	Performance	4	0

JUDICIARY

05-155-01	Appellate Defender Commission <i>The Commission is responsible for a system of indigent appellate defense services, for the Statewide roster of eligible and willing attorneys, and for a continuing legal education training program.</i>	Performance	2	1
05-210-01	Trial Court Services Division, State Court Administrative Office <i>The Office is responsible for providing administrative oversight and management or technical assistance to the judges and staff of Michigan's 244 trial courts.</i>	Performance	3	0

LEGISLATURE

03-140-01	Michigan Legislative Retirement System - R <i>The System is funded by State appropriations, member contributions, circuit and district court fees, and income from investments.</i>	Financial	0	0
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Detroit Metropolitan Wayne County Airport Reviews  
*During fiscal year 2001-02, 3 special review reports on the Airport were prepared at the request of a select legislative committee. In fiscal year 2000-01, 13 special review reports on the Airport were also prepared at the request of a select legislative committee. In fiscal year 1999-2000, 7 preliminary review reports on the Airport were prepared at the request of a joint legislative committee. All 23 of these review reports are available on our Web site.*

27-629-00L	*Competitive Bidding of Contracts, Maintenance Assistance Services Contract	Review	N/A	N/A
27-630-00L	*Contractors, Parking Management Contract	Review	N/A	N/A
27-631-00L	*Bond Issuances	Review	N/A	N/A

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED  
DURING FISCAL YEAR 2001-02

<u>Project Number</u>	<u>Report Title</u>	<u>Audit Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	MANAGEMENT AND BUDGET, DEPARTMENT OF			
07-010-01	State of Michigan Comprehensive Annual Financial Report (SOMCAFR) - Principal (Fiscal Year 1999-2000) - R	Financial	10	3
07-011-02	** SOMCAFR - Central Staff (Fiscal Year 2000-01)	Financial	N/A	N/A
07-012-02	** SOMCAFR - Field Staff (Fiscal Year 2000-01)	Financial	N/A	N/A
07-030-02	**Review of Constitutional Revenue Cap (Fiscal Year 2000-01) - R	Financial	N/A	N/A
07-031-02	**Review of Section 30 Expenditure Limitation Report (Fiscal Year 2000-01) - R	Financial	N/A	N/A
07-126-01	Real Estate Division <i>The Division secures and administers leased space for departments, acquires and disposes of land, grants and purchases easements, and leases and administers State land to private tenants.</i>	Performance	6	0
07-137-01	Selected Internal Service Funds The selected Funds were the Information Technology and Energy Fund, Motor Transport Fund, Office Services Revolving Fund, and Risk Management Fund.	Performance and Financial	5	0
07-401-02	Michigan Strategic Fund The Fund was established to help diversify the economy of the State and to provide for economic development.	Financial	1	0
07-403-02	Michigan Economic Development Corporation <i>The entity's mission is to promote smart economic growth by developing strategies and providing services to create and retain good jobs and a high quality of life for Michigan residents.</i>	Financial	0	0
07-598-01	Telecommunication Services and Enterprise Security <i>The Department provides telecommunication services to the executive branch agencies and ensures the security and integrity of the State computing resources.</i>	Performance	16	0
07-629-02	Use of Transportation-Related Funding - R <i>Funding was provided to the Departments of State, Management and Budget, State Police, Civil Service, Attorney General, Environmental Quality, Natural Resources, Treasury, and Transportation and the Office of the Auditor General.</i>	Financial	2	2

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED  
DURING FISCAL YEAR 2001-02

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
MILITARY AND VETERANS AFFAIRS, DEPARTMENT OF				
51-100-02	Department of Military and Veterans Affairs - R	Single	1	0
51-200-01	Construction and Facilities Management Office <i>The Office ensures that the Department's 51 National Guard armories, 2 Army National Guard training sites, and 2 homes for veterans are maintained and comply with all health, safety, and environmental laws and regulations.</i>	Performance	4	0
NATURAL RESOURCES, DEPARTMENT OF				
75-100-02	Department of Natural Resources - R	Single	3	0
75-152-01	Forest Management Division <i>The Division manages 3.9 million acres of State forest lands, 1,700 miles of State designated natural rivers, and 1,089 miles of federal wild and scenic river corridors. Also, the Division has private forest responsibilities.</i>	Performance	8	0
STATE POLICE, MICHIGAN DEPARTMENT OF				
55-100-02	Michigan Department of State Police - R	Single	6	2
55-141-01	Uniform Services Bureau <i>The Bureau maintains road patrols, responds to citizen complaints, and plans and cooperates with local public safety agencies to preserve law and order throughout the State.</i>	Performance	0	0
55-143-01	Fire Marshal Division <i>The Division is responsible for fire investigation, investigation training, fire and arson data collection and analysis, response to hazardous materials emergencies, and public fire safety education.</i>	Performance	4	0
TRANSPORTATION, MICHIGAN DEPARTMENT OF				
59-132-01	Services Provided to Local Road Agencies <i>Services provided can be very general, such as cost recovery for planning responsibilities. Other services are very specific, such as preparing bids and monitoring projects for local road agencies.</i>	Performance	1	0

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED  
DURING FISCAL YEAR 2001-02

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
59-160-01	Maintenance Division, Bureau of Highway Technical Services <i>The Division provides technical expertise and assistance for Department maintenance and preservation activities.</i>	Performance	3	1
59-166-01	Design Division, Bureau of Highway Technical Services <i>The Division provides construction plans and design services for the Department.</i>	Performance	4	0
59-169-00	Construction and Technology Division, Bureau of Highway Technical Services <i>The Division is organized into three sections: Construction Section, Bridge and Pavement Operations Section, and Testing and Research Section.</i>	Performance	7	0
TREASURY, DEPARTMENT OF				
27-100-02	Department of Treasury - R	Single	3	2
27-150-01	Collection Division <i>The Division is responsible for collecting tax delinquencies and unpaid accounts that State agencies and universities are unable to collect.</i>	Performance	4	0
27-220-00	Motor Fuel, IFTA/Motor Carrier, Tobacco Taxes and Registration Division <i>The Division administered the motor fuel, motor carrier fuel, tobacco products, public utility property, and severance tax laws and maintained registration records for business taxpayers.</i>	Performance	7	0
27-252-02O	**State Treasurer's Annual Report - R <i>The State Treasurer is responsible for the investment activities and the safekeeping of assets of several retirement systems, various trust funds, and the State's Common Cash pool.</i>	Financial	N/A	N/A
27-256-01	Transition in the Office of State Treasurer - R <i>The audit was required when a new State Treasurer was appointed effective May 1, 2001.</i>	Financial	0	0
27-265-01	Commercial Mobile Radio Service Emergency Telephone Fund <i>The Fund was created to provide money to implement the Federal Communications Commission's wireless emergency service order.</i>	Financial	2	0
27-550-01	Information Technology Services and the Automated Information Systems, Bureau of State Lottery <i>The Bureau plans, tests, and evaluates on-line and instant games; provides direct support for lottery retailers; provides end-user computer support; and maintains automated information systems to support its gaming operations.</i>	Performance	7	0

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED  
DURING FISCAL YEAR 2001-02

<u>Project Number</u>	<u>Report Title</u>	<u>Audit Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
27-605-01	Federal Cash Management Improvement Act Program <i>The Act and the associated federal regulations ensure fairness between the federal government and the states for use of federal and state funds for federally mandated programs.</i>	Performance	2	0
27-605-02	Federal Cash Management Improvement Act Program <i>The Act and the associated federal regulations ensure fairness between the federal government and the states for use of federal and state funds for federally mandated programs.</i>	Performance	0	0
UNIVERSITIES				
33-180-01	Oakland University <i>The University offered 110 undergraduate and 67 graduate and certificate programs within six academic colleges/schools.</i>	Performance	9	0
33-210-01	University of Michigan - Dearborn <i>The University offered 69 undergraduate and 21 graduate programs within four academic colleges/schools.</i>	Performance	8	0
33-220-01	University of Michigan - Flint <i>The University offered 62 undergraduate degree programs, 9 master's degree programs, and 24 certifications within four academic colleges/schools.</i>	Performance	6	0
33-606-97F	Follow-Up Review of the Charter Schools Office and Michigan Resource Center for Charter Schools, Central Michigan University <i>The University's Board of Trustees is the authorizing body for 58 public school academies, commonly referred to as charter schools.</i>	Performance	N/A	N/A
			<u>310</u>	<u>22</u>

## Notes